ANNUAL REPORT 2019

LIBRA INTERNET BANK

LIBRA INTERNET BANK

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Message of the Chairman of the Board of Directors

Radu Grațian Ghețea

The year 2019 was the 23rd in the history of Libra Internet Bank, a rising bank, with remarkable financial results and increasing visibility, both in terms of customers and competition.

Last year's results are a consequence of a sustainable, balanced and well-targeted strategy, which led to a 20% net profit increase, a 23% increase in the balance of credits and a 19% increase of funds attracted from clients. The bank also continued to strengthen its position in terms of market share. Thus, while in 2016 the value of the bank's market share was 0.86%, at the end of 2019 it reached 1.32%.

Throughout its evolution, Libra Internet Bank has managed to stand out through 3 defining qualities: its entrepreneurial spirit, its high speed of adaptation and its innovation capacity. In the Romanian banking landscape, these are the characteristics that transform Libra Internet Bank into one of the most beautiful success stories in Romania.

Libra Internet Bank has always known when to react, where to innovate and how to perform. An illustrative example is that Libra Internet Bank is the first bank in Romania to offer its customers a 100% online bank account and a 100% online credit, with no paperwork nor trips to the bank.

Our bank is an important partner for successful fintechs and the first financial player within the domestic market to export its own technology as part of an international instant payments project.

Regardless of the time period, Libra Internet Bank has remained a solid, responsible and dynamic bank, and this recommends us as a strong, reliable and flexible partner.

Message
of the General Manager

Emil Bituleanu

In 2019, we continued to be agile, innovative and pioneering. We consolidated our position on the Romanian banking market, we exceeded the budgeted targets and we obtained a net profit of over Lei 115 million, while the assets' value exceeded the threshold of Lei 6.5 billion.

We have continued to invest heavily in technology and have reaffirmed our openness towards fintechs by concluding successful digital partnerships. Thus, we became the first bank in Romania to export banking technology as part of an international instant payments solution through a messaging app - Moneytou powered by Mastercard - and we laid the foundations of the collaboration with the British fintech Monese, materialized in early 2020.

Last year, we constantly improved our banking customer experiences and launched an upgrade version of the bank's mobile banking application.

At the same time, we invested in expanding our own territorial network and opened 4 new branches in Cluj, Focșani, București and Slobozia.

Libra Internet Bank remained the company of the most beloved programs for employees, and Libra Energize was recognized as one of the best employer branding projects in Romania, by winning the "Silver Award for Excellence" at the 2019 PR Award Gala.

I would like to thank both the customers for their trust and the colleagues in the bank for their professionalism, involvement and responsibility.

Last year's results are undoubtedly excellent, but the latest global developments show us how things can change radically, from one moment to the next. The year 2020 puts the whole world in front of a new challenge that fundamentally changes the rules of the game, at all levels.

Today, we are talking about a new reality in which our responsibility is major and what really matters is how well we manage to adapt in real time to current developments. Our niche strategy, with a responsible lending activity, in protected industries, and with maintaining a permanent balance between the classic and the alternative channels has always led to very good results.

Therefore, I want to assure all our customers and partners that Libra Internet Bank's approach in recent years is the asset that currently guarantees us the business agility necessary to be able to respond quickly and efficiently to all changes and challenges.

Message of the Executive Management

Cristina Mahika-Voiconi
Deputy General Manager

The year 2019 was a record year for our company, the year when we generated the largest business volume by granting new loans worth over Lei 2 billion, the year we significantly expanded the strategic partnerships with our customers, the year we generated the largest historical profit for shareholders, in low risk conditions. A year when we continued the tradition of the last 10 years: a business growth of over 20%, year by year. We have the courage to grow rapidly, to permanently identify new business lines, to apply new technologies, to support our customers in their development plans.

Three indicators are relevant: ROE - 17.2%, 50% higher than the average of the banking system, increase of the loan portfolio by 23%, risk 2.5 times lower than the average of the banking system (NPL 1.7%).

Our strength comes from the permanent support of our shareholders, from the strong attachment to the principles of a transparent and fair business. And last but not least, we have extremely valuable employees, they are the basis of our results.

I am proud of the way we help companies in any industry to continue their development, to implement their investment plans. We are permanently connected to any business that has a chance of success. We have learned, we have specialized, we are there for doctors, notaries, executors, farmers, residential developers, companies of any size.

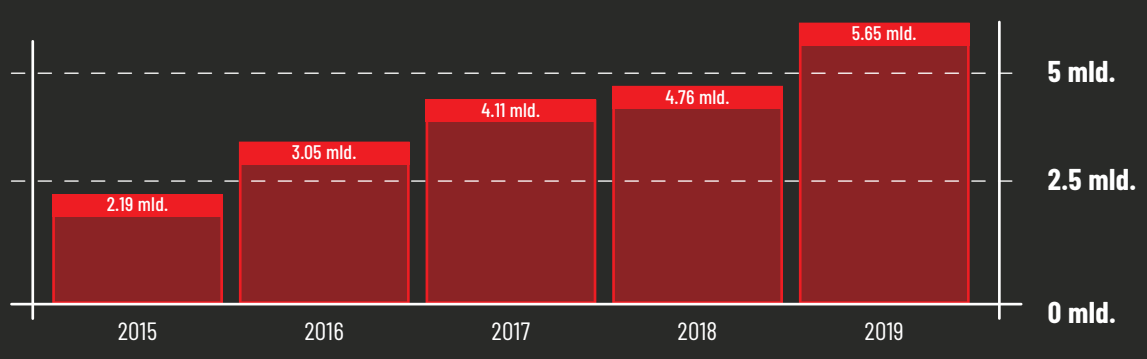
Our mission has never been more important. It leads us to great opportunities, but it also forces us to ensure trust, sustainable development, easy technologies, safety. We, the people at Libra Internet Bank, are committed to generating sustainable value for our customers. We are one step ahead, we think about the future, we aim to surpass ourselves. Our goal is business excellence and that is why we constantly strive to offer our customers access to impeccable services.

Eugen Goga
Deputy General Manager

In 2019, Libra Internet Bank continued to pay special attention to the savings area, which led to a significant increase in the balance of attracted funds, from Lei 4.76 billion (in 2018) to Lei 5.65 billion, at the end of last year.

Romanian customers pay more and more attention to their personal budget and providing the best saving conditions is one of our main concerns. Last year, we maintained the trend of increasing deposits to ensure an optimal level of liquidity for lending.

Based on a permanent dialogue, over time, we have managed to gain the depositors' trust, through flexible and innovative savings products, such as the 1 Year and 1 Month Deposit or the Blitz Deposit.



Evolution of attracted funds (lei deposits) – at bank level

We are an organization that places great emphasis on technology. 2019 was an exceptional year from this point of view: we became even more agile in the development processes, we introduced a modern mobile banking solution, we put Business Intelligence and Robotic Process Automation to work, thus significantly improving the reporting area and data access, respectively performing process automations extremely easy. We have implemented a new anti-fraud and compliance platform. We have offered instant payments to our customers, becoming the first bank in the domestic banking system to include this service for free directly in its standard offer for individuals. We continued to open ourselves to digital partnerships and we had a pioneering activity in Romania in terms of collaboration with fintechs.

Ionel Umbreș
Deputy General Manager

For 2020, we also have new projects in the technology area, which we are going to implement in order to leverage the bank's know-how and infrastructure even more. We continue to automate processes and modernize infrastructure in order to keep pace with technology and even be one step ahead of time, as it frequently happens. We do this to constantly improve the customer experience and to be able to develop innovative products.

Our open strategy towards innovation and partnerships has proved to be efficient and sustainable, which is why we intend to maintain this approach in the coming years.

LIBRA INTERNET BANK

Key figures

Statement of profit or loss and other comprehensive income

	31 December 2018	31 December 2019
Interest income	271.566.250	336.880.489
Interest expenses	(49.607.409)	(66.903.884)
Net interest income	**221.958.841**	**269.976.605**
Fee and commission income	33.397.014	41.277.766
Fee and commission expense	(12.006.121)	(14.397.915)
Net fee and commission income	**21.390.893**	**26.879.851**
Net income from financial instruments at FVTPL	117.586	10.439.855
Net gain from foreign exchange transactions and revaluation	15.621.819	19.266.091
Other operating income	3.190.058	2.561.136
Total operating income	**262.279.197**	**329.123.538**
Personnel expenses	(81.844.416)	(104.496.626)
Amortization and depreciation	(3.110.078)	(15.214.642)
Other operating expenses	(58.779.221)	(67.182.079)
Total operating expenses	(143.733.715)	(186.893.347)
Operating profit	**118.545.482**	**142.230.191**
Impairment losses on financial instruments	(7.722.414)	(9.724.474)
Profit before tax	**110.823.068**	**132.505.717**
Income tax expenses	(15.063.588)	(17.236.883)
Net profit for the year	**95.759.480**	**115.268.834**
Total comprehensive income, after tax	95.759.480	115.268.834

LIBRA INTERNET BANK

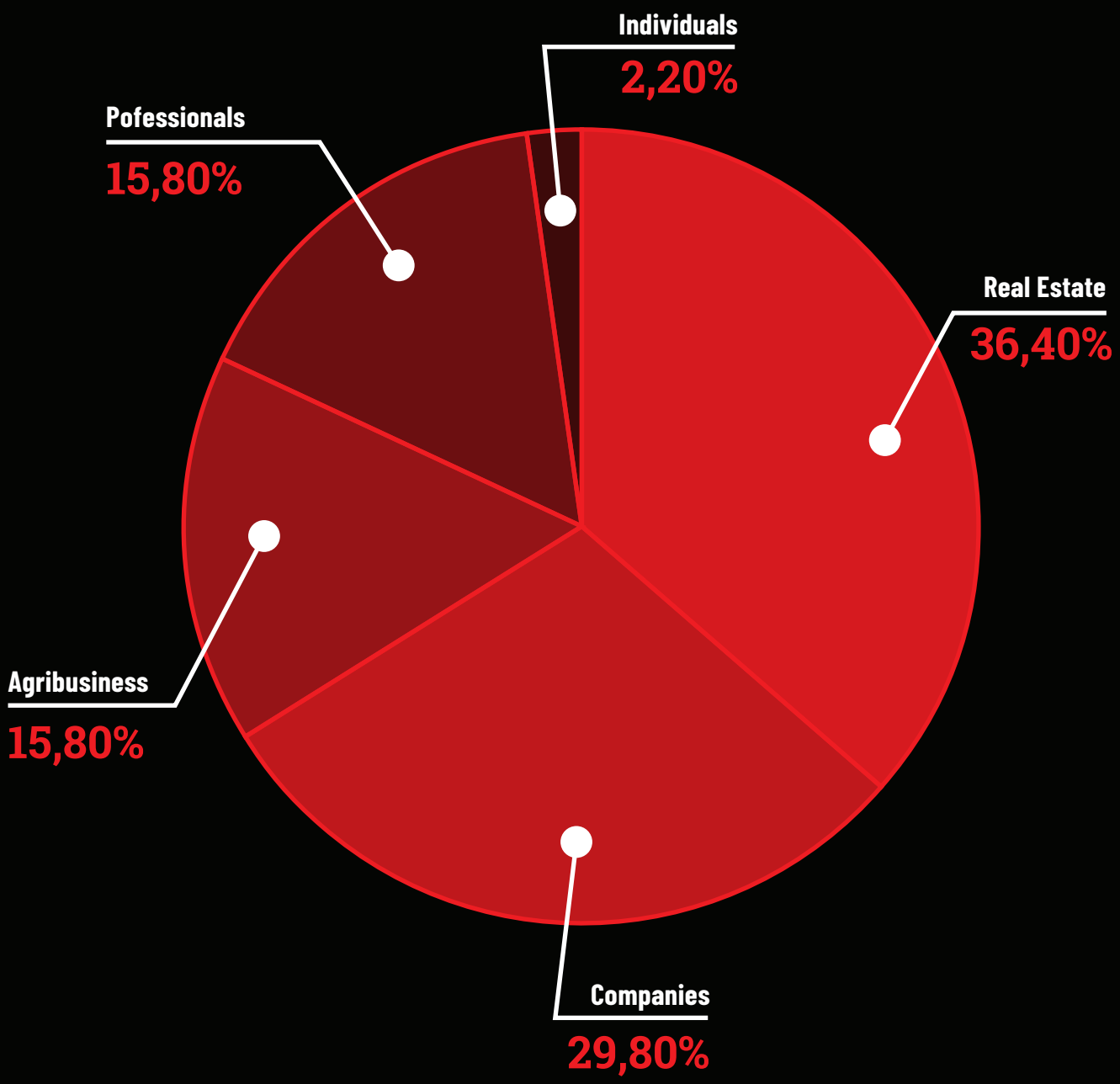
Key figures

Statement of financial position

Assets	31 December 2018	31 December 2019
Cash and cash equivalents	74.799.730	90.559.183
Loans and advances to the National Bank of Romania	1.154.189.161	652.781.859
Loans and advances to banks	316.011.046	654.265.779
Loans and advances to customers	3.251.519.519	4.013.390.330
Investments securities at fair value through profit or loss	1.494.589	11.218.685
Investments securities at amortized cost	582.767.431	980.225.075
Property and equipment	7.992.837	60.120.648
Intangible assets	3.215.738	3.702.270
Deferred tax asset	857.416	1.582.338
Other assets	62.495.255	63.339.372
Total assets	**5.455.342.722**	**6.531.185.539**
Liabilities and Equity		
Deposits from customers	4.759.395.407	5.668.215.725
Loans from financial institutions	57.398.480	40.846.726
Provisions	4.808.302	9.277.204
Current tax liability	5.491.802	182.513
Other liabilities	15.228.833	84.374.639
Total liabilities	**4.842.322.824**	**5.802.896.807**
Share capital	506.165.200	506.165.200
Reserves	15.236.174	112.079.786
Retained earnings	91.618.524	110.043.746
Total equity	**613.019.898**	**728.288.732**
Total liabilities and equity	**5.455.342.722**	**6.531.185.539**

Portfolio 2019

The structure of the loan portfolio by business lines



LIBRA INTERNET BANK

Presence in Romania

In 2019 we opened 4 new branches in Cluj, Focșani, București and Slobozia.

How we made our mark in 2019

Fintechs

In 2019, Libra Internet Bank reaffirmed its role as key partner for the most innovative financial players and as a technology provider. At this moment, the Bank is recognized, both in Romania and internationally, for its rapidity and for finding and implementing successful digital solutions.

API Banking - Open Banking

Libra Internet Bank - the first bank in Romania to launch an Open Banking platform through API, dedicated to the business segment. Through these APIs, third-party developers have the ability to build applications and solutions right from the bank's services.

Banking technology providers

Last year, Libra Internet Bank became the first bank in Romania to export banking technology as part of an international instant payment solution through a messaging app.

Moneytou powered by Mastercard

This instant payment service for Viber users in Central and Eastern Europe was developed with banking technology developed by Libra, and launched last year in Hungary, to later be extended to Ukraine and Romania.
The project was the result of international collaboration between Rakuten Viber, Wirecard, Mastercard, NeoPay and Libra Internet Bank and was widely presented in the domestic and international press.

Radu Săbău
Director of the Cards Division

"Last year, Libra Internet Bank demonstrated that it can make major contributions in partnerships with renown international players who aim to launch or consolidate their business in Romania or in other parts of Europe."

How we made our mark in 2019

Fintechs

Digital Bank of the Year

At the end of 2019, the bank's domestic and international results in the field of technology and digital partnerships received an important recognition, at the 24th edition of the "Piața Financiară" Magazine Awards Gala, within which Libra Internet Bank was designated Digital Bank of the Year.

Digital Bank of the Year 2019

Partnership with Monese

In 2019, Libra Internet Bank laid the foundations for the collaboration with the British company Monese, materialized, this year, by launching the accounts for Romania of this international service.

Following this collaboration, over 300,000 Romanians, Monese customers, can currently enjoy the advantages of having an IBAN in lei, provided by Libra Internet Bank for Monese.

"Libra is certainly already a provider of banking technology. We are recognized in the banking market as an innovative bank, focused on new technologies, and partnerships with fintechs strengthen this position. Pioneering services is what we have been doing for several years. The level of maturity we have reached is in itself an argument for which major fintechs choose to work with us."

monese

Alexandru Biță
Director of the eBusiness Division

How we made our mark in 2019

Innovation

In 2019, Libra Internet Bank continued to be a provider of innovative solutions for customer needs, starting from a solid and sustainable strategy that places a strong emphasis on technology.

"For the most part, the bank's tech projects were carried out in-house, which facilitated efficient coordination and real time management of the challenges encountered during each stage. This was possible with the help of a strong IT team, made up of specialists with a high level of business processes and customer perspective understanding."

Alexandru Dionian
Director of the IT Division

The new Libra Mobile Banking app - Banking within touching distance

After 220 days of development and testing around the banking within touching distance concept, the Libra Mobile Banking application was launched in an upgraded version in September 2019. The app significantly expanded its available options and brought a much simplified user experience. The new version offers users:

- Complete banking services
- Authentication with biometric data
- New design
- Simplicity in navigation

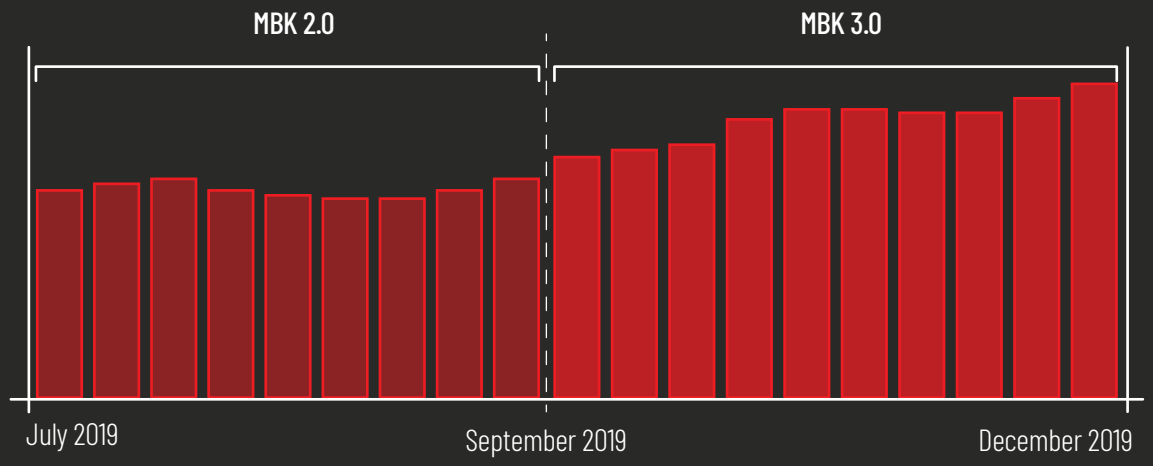
How we made our mark in 2019

The new Mobile Banking app

In addition, the application has become a very useful tool for non-Libra customers, who now have the opportunity to open an account or get a loan online, anytime, anywhere within the app.

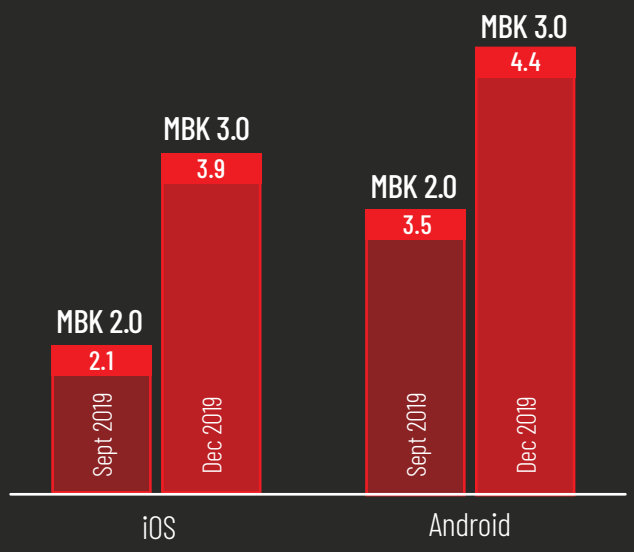
The new app, MBK 3.0, was well received by customers, and this was confirmed by the indicators measured 3 months after its launch.

Evolution of active devices number - before vs. after MBK 3.0 launch



25.6% increase of active devices

Evolution of app stores ratings - before vs. after MBK 3.0 launch



How we made our mark in 2019

Instant Payment Service

In November 2019, Libra Internet Bank joined the instant payments infrastructure and became the first bank in the system to include this service for free in the standard offer for individuals, both for collection and payment.

The Instant Payment Service is a very good answer to the security, rapidity and financial mobility needs of customers. These requirements were the basis for the decision to introduce this service free of charge as an integral part of Libra Internet Bank's standard offer for individuals.

Instant payments are the fastest way to transfer funds between customers who have accounts with different banks, whenever transactions are made (24/7/365) and in conditions of maximum security. Libra customers can make instant payments directly from the bank's mobile and internet banking applications. In the first months after its launch, the service was well received by the bank's individual customers.

The infrastructure for processing instant payments was developed by TRANSFOND, in collaboration with commercial banks, the Romanian Association of Banks and the National Bank of Romania.

How we made our mark in 2019

Niche strategy

In 2019, Libra Internet Bank continued to address the business segments in which it has specialized over the years, in areas such as real estate, professionals, agribusiness or SMEs.

Andrei Gavriliță
Director of the Corporate Division

For 5 years, partners for Real Estate

For Libra Internet Bank, 2019 was the 5th year of being a strong partner for the Romanian Real Estate.

"After 5 years, we have come to offer more than financing. Libra's funding of a project has become an argument in itself for that project's viability. We provide our partners with all our expertise and in-depth understanding of the criteria to be met for successful projects. That is why a loan offered by us is always accompanied by advice and informed insights about the market."

Real Estate 2019, in figures

Lei 676 mil.
grants awarded

3500
finalized apartments

220.000 sqm
financed by the bank

Year of financing the tallest hotel in București

In 2019, Libra Internet Bank also paid more attention to hotels - a segment of great interest for international chains - and awarded an EUR 24 million financing for the construction of the tallest hotel in Bucharest, a project of Niro Investment Group.

The hotel will be operated by the Accor group, under the Swissôtel brand, and will stand 85 meters tall, with 27 levels, of which 3 are underground, and a total built area of approximately 30,000 square meters.

How we made our mark in 2019

Professionals

In 2019, the bank continued to strengthen its position as key partner of professionals, segment in which it has specialized for the last 16 years. Thus, in the professional area, the balance of loans increased by 14%, and the value of deposits was 20% higher compared to the previous year.

The bank has established solid partnerships in healthcare - clinics, dentists or veterinarians - towards which it comes with high performance solutions to finance investments or current activity.

Libra also offers advantageous saving & lending options to notary offices, with an emphasis on investments in working points.

Last year, Libra Internet Bank strengthened its role as favourite partner of bailiffs, by providing innovative solutions, developed over time and designed to ensure optimal management of these customers' specific activity.

All these professional categories benefit from the possibility of accessing Libra Internet Bank funds, without having to go to the bank.

Oana Hagiu-Iftode
Director of the Liberal Professions & Retail Division

"Through the Online Professionals project, in order to support businesses in the field, we keep close to professionals even from a distance, including customers from counties where we do not have a branch in."

How we made our mark in 2019

Agribusiness

Libra Internet Bank remained an important partner of the Romanian agriculture, continuing to offer dedicated programs and customized solutions to farmers.

„We have been dealing with the agri segment for over 7 years. We have specialized consultants and the necessary expertise to be able to come up with high-performance and adapted solutions to cover any requirements of the Romanian farmers. Our funding is always creative and flexible, and farmers can harness their land not only as a primary factor of production, but also as a guarantee for customized financing solutions. "

7 years of Agribusiness

In the 7 years since agribusiness has become one of the bank's strategic directions, Libra Internet Bank has reached a high level of understanding agricultural activities dynamics and of farmers' needs, as well as the importance of being close to customers.

At the end of last year, we opened a branch in Slobozia dedicated to agribusiness customers, in order to provide them with quick financing solutions.

Business performance

Following the successful development of innovative products and services dedicated to local farmers, the bank was recognized for the most admired farmer support program in Romania, at the 19th edition of the Financial Leaders' Hall of Fame Awards Gala - event which brings together professionals in the financial-banking field and representatives of some of the largest companies in Romania.

Mihai Popa
Director of the Agribusiness Division

Facilitating access to finance

Depending on the needs of the customers, the guarantee / financing instruments represent another solution through which Libra Internet Bank increases the degree of access to financing, in agriculture.

The Bank has a long-standing partnership with the European Investment Fund (EIF), which supports lending to farmers, both for the purchase of inputs and for investments (under the EaSI guarantee program for micro-enterprises and under the COSME program for SMEs).

Furthermore, in 2019, within the COSME program a second convention was signed, which makes available an additional lei 300 million limit to SMEs in agriculture, as well as in other fields of activity, through which they can access loans with a 50% guarantee from the European Investment Fund, until 2022.

How we made our mark in 2019

SMEs

In 2019, the bank continued to support SMEs in Romania, by providing loaning solutions and concluding new guarantee or financing partnerships.

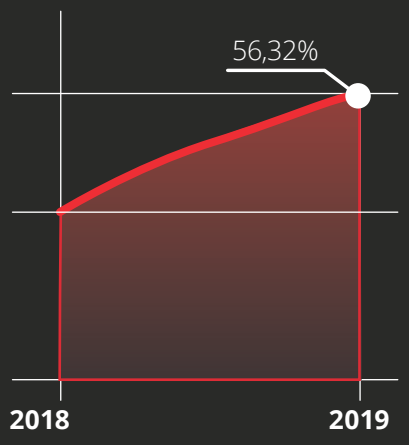
The first branch dedicated to SMEs

In the middle of last year, Libra Internet Bank opened, in Bucharest, the "Basarabia" Branch, its 53rd unit and the first one oriented exclusively towards the relationship with legal entities belonging to the SMEs category.

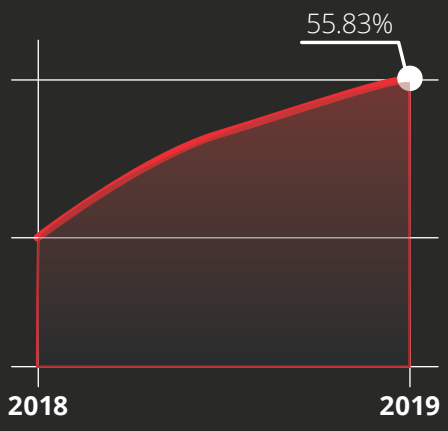
"The Basarabia branch is a successful project that has become a genuine school for our SME specialists, by creating a training centre within the banking unit for new colleagues in the division."

Petronel Postolache
Director of the SME Division

Credit balance



Number of customers



SME division, in figures

How we made our mark in 2019

Partnerships with financial institutions

"Guarantee programs are an excellent tool to support customers who want to grow but encounter difficulties accessing finance, mainly due to lack of guarantees and credit costs. The partnerships concluded over time with EIF and EBRD turn Libra Internet Bank into one of the most active banks in Romania, in the area of facilitating access to financing for SMEs, with guarantees from European funds."

Elena Ionescu
Director of the European Funds Division

Started in 2014, the partnership between the European Investment Fund and Libra Internet Bank has continued to grow ever since. At the end of last year, 9 financing and guarantee agreements were in force between the two institutions for several categories of beneficiaries in all industries.

In 2019, the European Investment Fund (EIF) and Libra Internet Bank expanded their partnership and doubled the ceiling from lei 202 million to lei 402 million, until 2023, for lei loans awarded to SMEs by Libra Internet Bank with the support of the EIF, under the SME Initiative Program.

By supplementing the funds, SMEs can still obtain loans for financing their current activity and investments, from Libra Internet Bank, guaranteed 60% by the EIF, without guarantee fee and with interest reduction for the guaranteed part.

Moreover, within the Portfolio Risk Sharing Loan (PRSL) program, carried out through the National Rural Development Program, beside farmers, SMEs with non-agricultural activities from rural areas also benefited from 70% EIF guaranteed loans with interest subsidy.

SMEs in the Cultural and Creative Industries sector have also benefited from increased access to financing through the guarantee programs offered by the bank in partnership with EIF. Thus, through the Cultural and Creative Sectors Guarantee Facility, companies in areas such as film or music production were able to access loans with a 70% guarantee from the EIF, with no SME guarantee fee.

In addition, the series of free workshops for SMEs was continued in order to facilitate access to information on financing through European programs.

By increasing the existing ceilings and concluding new guarantee and financing partnerships in 2019:

> 700 customers from all fields of activity had access to financing

>lei 170 million loans were granted

How we made our mark in 2019

Employer brand

Libra Internet Bank continued to differentiate itself from other employers by flexibility, agility and emphasis on the personal and professional evolution and development of each employee. These are the premises from which Libra starts every time it designs and implements programs for employees or benefits meant to support continuous development.

In 2019, approximately 20% of tech employees continued to develop their skills in advanced technologies such as Machine Learning, Artificial Intelligence, RPA or business analysis.

~900
employees

>120
IT employees

Libra - The bank of "movie-like" benefits

The benefits provided for employees in 2019, in addition to those already in place, were different from those generally present in the Romanian market. This was highly appreciated by employees and also generated strong positive feedback from the external public.

Benefits introduced in 2019

The novelties have completed an extremely wide panel of benefits for Libra people and represent a real recipe for success which had as main effect the increase of the level or performance.

These results were also recognized in the business environment, so that last year, Libra Internet Bank received the award for "The most productive employees" at the 12th edition of the Top Bankers Gala, a benchmark event in Romania, organized by the Finmedia press trust.

Late Monday & Early Friday, through which Libra employees enjoy great flexibility in organizing their work schedule.

Sabbatical leave for staff employed for more than 5 years within the bank - new concept for the Romanian market.

How we made our mark in 2019

LIBRA ENERGIZE

Libra Energize - A life changing program is one of the best employer branding projects in Romania. For this program, in 2019, Libra Internet Bank won the Silver Award for Excellence, in the Employer Branding category, within the largest domestic competition dedicated to PR projects – Romanian PR Award.

Within the program, teams consisting of bank employees compete in extremely interesting sports contests, such as mountain or asphalt running, cycling, swimming, climbing, kayaking, crossfit, archery, rally, etc.

Libra Energize's objective is to promote a healthy lifestyle, the spirit of competition and fair play, necessary elements in professional activity.

120 employees enlisted in qualifications

60 qualified energizers

5 & 10 weekends & sports events

6,000 km of running in the mountains

1,200 km run on asphalt

120 km MTB rides

30 kayaks on Lake Mâneciu

50 karts on the karting track

8th edition

8 Editions 2011 - present

24,000 km traveled in the mountains

820 participants

6300 km run on asphalt

5000 km MTB

20 km swum

80 kayak routes

200 Target practice

100 climbings

1600 rappel and zip line workshops

How we made our mark in 2019

LIBRA CULTURAL

Libra Cultural is a program complementary to Libra Energize, which aims to develop the imagination and creativity of employees. In 2019, Libra Cultural took on a unique shape and was named Libra Cultural - Art Core.

Thus, during 5 sessions, 100 enthusiasts enjoyed art and beautiful places in cities such as București, Cluj and Iași. They visited the Romanian National Museum of Art, the National Museum of Contemporary Art and the București Museum of Art Collections; The Palace of Culture in Iași or the Art Museum and Center of Interests in Cluj, as well as other art galleries and workshops.

Beside admiring works of art and visiting museums and galleries, participants were accompanied by a specially-trained facilitator with whom they discussed topics such as: national identity, censorship in art, art during the communist period or collecting.

Run. Visit. Run.

Unique project in Romania, implemented in 2019 for Libra employees. The concept of the program is found at the intersection between sports and art, between Libra Energize and Libra Cultural.

Run.Visit.Run. consists of a 7-10 km run, in teams of 2, 3 or 4 members, with stopping points at art galleries. Participants receive the list of galleries they need to reach, in the order in which they are sent, and get to choose their own route.

The galleries visited in 2019 were spectacular: Mobius Gallery, AnnArt Gallery, Anca Poterașu, LABORNA, CAV, Dada Gallery. Libra Energize and Libra Cultural managed to bring together two different types of people and put them in a puzzle called Run.Visit.Run.

How we made our mark in 2019

LIBRA INNOVATE

Libra Innovate is a new program for Libra employees, which aims to innovate, as its name suggests. Through this program, for 24 hours, the participants have the mission to come up with innovative ideas, to create and explain them in the smallest detail so that they can be implemented immediately.

Libra Innovate eliminates barriers in thinking, imagination, creation and innovation, in order to deliver ideas that can be implemented. In 2019, two editions took place:

1st Edition

- **50** participants
- **9** teams
- **24** innovative ideas

2nd Edition

- **52** participants
- **10** teams
- **23** innovative ideas

CSR in figures

- **30%** of employees were involved in social responsibility projects
- **15** CSR projects with Libra involvement or coordination
- **100** employees donated blood to save lives
- **thous.** of acacia seedlings were planted by Libra volunteers

CSR landmarks

Having coffee with an entrepreneur - successful project, which offered free advice to entrepreneurs, both in terms of banking and marketing, advertising, etc.

Emphasis on recycling, on reducing plastic consumption and on financial education.

Banking Academy

The Banking Academy is a remunerated training program, through which Libra Internet Bank offers the new generations of graduates and / or master students the chance to take the first step in banking, together with Libra. "As long as a person lives, a person learns!" it is the proverb that best defines the vision and mission of the project.

The training is oriented towards "learning by doing".

3 sessions
organized in March, July and November

>80%
participants began their banking careers at Libra

LIBRA INTERNET BANK

Be here. **Make your mark!**

LIBRA INTERNET BANK S.A

Financial Statements

31 December 2019

Prepared in accordance with
International Financial Reporting
Standards as adopted by the
European Union

This version of the financial statements is a free translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the financial statements takes precedence over this translation.

CONTENTS

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Independent Auditors' Report

(free translation[1])

To the Shareholders of Libra Internet Bank S.A.

Calea Vitan 6-6A, Sector 3, Bucharest
Unique Registration Code: 8119644

Report on the Audit of the Financial Statements

Opinion

1. We have audited the accompanying financial statements of Libra Internet Bank S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

2. The financial statements as at and for the year ended 31 December 2019 are identified as follows:

- Net assets/Total equity: Lei 728,288,731
- Net profit for the year: Lei 115,268,834

3. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

[1] TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.

Fiscal registration code
RO12997279
Trade Registry
no.J40/4439/2000
Share Capital 2,000 RON

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Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing ("ISAs"), Regulation (EU) no. 537/2014 of the European Parliament and of the Council ("the Regulation") and Law no. 162/2017 ("the Law"). Our responsibilities under those standards and regulations are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in Romania, including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses

As at 31 December 2019, gross loans and advances to customers: RON 4,075,161,635, related expected credit losses: RON 61,771,305 and net impairment charge recognized in the statement of profit or loss for the year then ended: RON 17,448,729 (31 December 2018: gross loans and advances to customers: RON 3,304,410,011, expected credit losses: RON 52,890,492, net impairment cgarge recognized in the statement of profit or loss: RON 16,352,548).

See Notes 3d, 4, 10 and 14 to the financial statements.

The key audit matter	How the matter was addressed in our audit
As described in Note 3d, the expected credit losses for loans and advances to customers ("expected credit losses") have been determined in accordance with the Bank's accounting policies based on the requirements of IFRS 9 *Financial Instruments* ("IFRS 9"). IFRS 9 requires an assessment of whether there is a significant increase in credit risk since initial recognition or any objective evidence of impairment (default), based on the assessment of the borrowers' debt service, their financial position and future cash flows expected from the borrowers. Pursuant to the Standard, individual- loans and advances (collectively, "loans") are allocated into one of three stages	Our audit procedures in this area, performed, where applicable, with the assistance from our financial risk management and valuation specialists, included, among others: ➲ Evaluating the appropriateness of the credit loss-related accounting policies based on the requirements of the relevant financial reporting standard, our business understanding and industry practice; ➲ Assessing the Bank's credit loss modeling techniques and methodology against the requirements of the relevant financial reporting standard, our business understanding and industry practice;

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for the purposes of estimating the loss allowances. Stage 1 and Stage 2 loans are performing loans, with Stage 2 loans representing loans where a significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, i.e. credit-impaired loans. For Stage 1 and Stage 2 loans, the expected credit losses are determined based on statistical models using the Bank's historical data and also macroeconomic forecasts taking into account similar credit risk characteristics. Key assumptions and judgements in the calculation of the Expected Credit Losses include the following: — definition of default and of significant increase in credit risk (SICR); — the probability of default (PD), loss given default (LGD) and exposure at default (EAD). In case of Stage 3 exposures, the ECLs are generally estimated by reference to the fair value of the related collateral. We consider estimating expected credit losses to be a key audit matter due the magnitude of the related balances as well as the complex requirements of IFRS 9, in respect of the related management assumptions and judgments, such as those for macro-economic inputs, and risk modelling.	➲ Testing of the design, implementation and effectiveness of the key controls in the Bank's expected credit loss estimation process. This included testing the controls over: — The completeness and accuracy of data input (mainly for loan exposures, collateral value and interest rates); — Approval of loans; — Review of ECL calculation; — System computation of debt service and allocation of payments; and — System configuration for forbearance monitoring. ➲ Testing of the IT control environment for data security and access, assisted by our own IT specialists; ➲ For a sample of loans, challenging the Bank's identification of a significant increase in credit risk since initial recognition or objective evidence of impairment (default), by reference to the underlying loan files and through corroborating with inquiries of the credit risk personnel. ➲ In respect of the expected credit losses for Stage 1 and Stage 2 loans, evaluating the key model parameters, such as the EAD, PD and LGD, by: • Challenging the Bank's macroeconomic forecasts used in the model in terms of their relevance and source accuracy; • Referring to the Bank's historical credit loss experience and the macroeconomic forecasts. The procedure included developing alternative scenarios regarding the estimation of the LGD; • Testing, on a sample basis, the accuracy of the underlying data used in the Bank's process of calculating the EAD, PD and LGD, by reference to the supporting documentation, such as credit risk memoranda, debt service status, repayment schedules, restructuring operations, etc., and underlying data for collections occurring after default.

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	➲ For a sample of stage 3 exposures, challenging the key assumptions applied in the estimate of the future cash flows, such as the recovery period and collateral values, by reference to the underlying valuation reports, the Bank's historical experience and industry practice. ➲ Re-performing the Bank's expected credit loss calculation, considering the allocation and discounting of collaterals in case of stage 3 exposures, and the allocation of probability of default and loss given default in case of stage 1 and 2 exposures; ➲ Critically assessing the overall reasonableness of the impairment allowances by: • Analyzing both the share of the gross non-performing exposures in total gross exposure and the provision coverage for non-performing loans and, • Assessing the results of the back-testing and model validation analysis performed by the Bank, with the help of our valuation specialists. ➲ Assessing the adequacy of the expected credit loss-related disclosures in the financial statements, including disclosures of the estimation uncertainties, as required by the relevant financial reporting standard.

Other information – Board of Directors' Report

6. The Board of Directors is responsible for the preparation and presentation of other information. The other information comprises the Board of Directors' Report, which includes also the Non-financial Statement, but does not include the financial statements and our auditors' report thereon.

   Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Board of Directors' Report we read and report whether the Board of Directors' Report is prepared, in all material respects, in accordance with NBR Order no. 27/2010, articles 12, 13, 15, 16 and 17 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions.

Based solely on the work required to be undertaken in the course of the audit of the financial statements, in our opinion:

a) The information given in the Board of Directors' Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements;

b) The Board of Directors' Report has been prepared, in all material respects, in accordance with NBR Order no. 27/2010, articles 12, 13, 15, 16 and 17 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit we are required to report if we have identified material misstatements in the Board of Directors' Report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

7. Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

8. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

9. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

10. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

    - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those

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risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

15. We were appointed by the General Shareholders' Meeting on 27 March 2018 to audit the financial statements of Libra Internet Bank S.A. for the year ended 31 December 2019. Our total uninterrupted period of engagement is 2 years, covering the years ending 31 December 2018 and 31 December 2019.

16. We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank, which we issued on 24 March 2020. We also remained independent of the audited entity in conducting the audit.
- we have not provided to the Bank the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014.

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Other matters

17. This independent auditors' report is made solely to the Bank's Shareholders, as a body. Our audit work has been undertaken so that we might state to the Bank's Shareholders those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's Shareholders, as a body, for our audit work, for the report on the audit of the financial statements and the report on other legal and regulatory requirements or for the opinion we have formed.

For and on behalf of KPMG Audit S.R.L.:

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FURTUNA CEZAR-GABRIEL

registered in the electronic public register of financial auditors and audit firms under no AF1526

Refer to the original signed Romanian version

KPMG Audit SRL

registered in the electronic public register of financial auditors and audit firms under no FA9

Bucharest, 3 April 2020

Autoritatea pentru Supravegherea Publică a Activităţii de Audit Statutar (ASPAAS)
Auditor financiar: FURTUNA CEZAR GABRIEL
Registrul Public Electronic: AF1526

Autoritatea pentru Supravegherea Publică a Activităţii de Audit Statutar (ASPAAS)
Firma de audit: KPMG AUDIT S.R.L.
Registrul Public Electronic: FA9

LIBRA INTERNET BANK S.A.

Statement of profit or loss and other comprehensive income

For the year ended 31 December

In RON	Note	2019	2018
Interest income	6	336,880,489	271,566,250
Interest expenses	6	(66,903,884)	(49,607,409)
Net interest income		**269,976,605**	**221,958,841**
Fee and commission income	7	41,277,766	33,397,014
Fee and commission expense	7	(14,397,915)	(12,006,121)
Net fee and commission income		**26,879,851**	**21,390,893**
Net income from financial instruments at FVTPL		10,439,855	117,586
Net gain from foreign exchange transactions and revaluation		19,266,091	15,621,819
Other operating income	8	2,561,136	3,190,058
Total operating income		**329,123,538**	**262,279,197**
Personnel expenses		(104,496,626)	(81,844,416)
Amortization and depreciation		(15,214,642)	(3,110,078)
Other operating expenses		(67,182,079)	(58,779,221)
Total operating expenses	**9**	**(186,893,347)**	**(143,733,715)**
Operating profit		**142,230,191**	**118,545,482**
Impairment losses on financial instruments	10	(9,724,474)	(7,722,414)
Profit before tax		**132,505,717**	**110,823,068**
Income tax expenses	11	(17,236,883)	(15,063,588)
Net profit for the year		**115,268,834**	**95,759,480**
Total comprehensive income, after tax		**115,268,834**	**95,759,480**

The financial statements were authorized for issue by the Board of Directors on 24 March 2020.

Eugen Goga,
Vice President

Doina Andrei,
Head of Finance Division

Statement of financial position

As at 31 December

In RON	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	12	90,559,183	74,799,730
Loans and advances to National Bank of Romania	13	652,781,859	1,154,189,161
Loans and advances to banks	12	654,265,779	316,011,046
Loans and advances to customers	14	4,013,390,330	3,251,519,519
Investments securities at fair value through profit or loss	16	11,218,685	1,494,589
Investments securities at amortized cost	16	980,225,075	582,767,431
Property and equipment	17	60,120,648	7,992,837
Intangible assets	17	3,702,270	3,215,738
Deferred tax asset	11	1,582,338	857,416
Other assets	15	63,339,372	62,495,255
Total assets		**6,531,185,539**	**5,455,342,722**
Liabilities and Equity			
Deposits from customers	18	5,668,215,725	4,759,395,407
Loans from financial institutions	19	40,846,726	57,398,480
Provisions	20	9,277,204	4,808,302
Current tax liability		182,513	5,491,802
Other liabilities	21	84,374,639	15,228,833
Total liabilities		**5,802,896,807**	**4,842,322,824**
Share capital	22	506,165,200	506,165,200
Reserves	23	112,079,786	15,236,174
Retained earnings		110,043,746	91,618,524
Total equity		**728,288,732**	**613,019,898**
Total liabilities and equity		**6,531,185,539**	**5,455,342,722**

The financial statements were authorized for issue by the Board of Directors on 24 March 2020.

Eugen Goga,
Vice President

Doina Andrei,
Head of Finance Division

Statement of changes in equity

In RON	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2018	**394,449,200**	**8,867,784**	**827,237**	**57,365,668**	**461,509,889**
Profit for the year	-	-	-	95,759,480	95,759,480
Other comprehensive income, net of tax					
Transfer to legal reserves	-	5,541,153	-	(5,541,153)	-
Total comprehensive income	**-**	**5,541,153**	**-**	**90,218,327**	**95,759,480**
Transactions with owners of the Bank					
Share capital increase	111,716,000	-	-	-	111,716,000
Dividends distribution	-	-	-	(55,965,471)	(55,965,471)
Total distributions and contributions	**111,716,000**	**-**	**-**	**(55,965,471)**	**55,750,529**
Balance at 31 December 2018	**506,165,200**	**14,408,937**	**827,237**	**91,618,524**	**613,019,898**
Balance at 1 January 2019	**506,165,200**	**14,408,937**	**827,237**	**91,618,524**	**613,019,898**
Profit for the year	-	-	-	115,268,834	115,268,834
Other comprehensive income, net of tax					
Transfer to legal reserves	-	6,625,286	-	(6,625,286)	-
Profit distribution to reserves			90,218,327	(90,218,327)	-
Total comprehensive income	**-**	**6,625,286**	**90,218,327**	**18,425,221**	**115,268,834**
Transactions with owners of the Bank					
Share capital increase	-	-	-	-	-
Dividends distribution	-	-	-	-	-
Total distributions and contributions	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2018	**506,165,200**	**21,034,223**	**91,045,564**	**110,043,745**	**728,288,732**

The financial statements were authorized for issue by the Board of Directors on 24 March 2020.

Eugen Goga,

Vice President

Doina Andrei,

Head of Finance Division

Statement of cash flows

For the year ended 31 December

In RON	Note	2019	2018
Cash flows from operating activities:			
Profit before tax		**132,505,717**	**110,823,068**
Adjustments for non-cash items:			
Depreciation and amortization	17	15,214,642	3,109,175
Loss from disposal of intangible assets and fixed assets	17	63,770	4,564,197
Net charge of provisions	10, 20	4,475,338	2,838,277
Net impairment loss on loans and advances	10	17,448,729	16,352,548
Dividends on equity securities		(557,638)	(674,588)
Other adjustments		(2,730,532)	1,067,135
Changes in:			
Loans and advances to NBR	13	501,407,302	(180,612,006)
Other assets		(844,117)	(14,198,596)
Other liabilities		4,925,344	4,756,341
Deposits from customers		908,820,319	662,165,511
Loans and advances to customers		(779,319,540)	(601,790,160)
Income tax paid		(23,271,094)	(14,563,754)
Dividends received		557,638	674,587
Net cash used in operating activities		**778,695,878**	**(5,488,265)**
Cash flow from investment activities:			
Purchases of tangible and intangible assets	17	(4,874,000)	(9,035,190)
Purchase of securities		(351,414,319)	(149,256,910)
Net cash used in investment activities		**(356,288,319)**	**(158,292,100)**
Cash flow from financing activities:			
Contributions from shareholders		-	111,716,000
Net proceeds/(repayments) from loans from financial institutions		(16,551,754)	21,969,659
Lease payments		(5,798,294)	-
Dividends paid		-	(55,965,470)
Net cash from financing activities		**(22,350,048)**	**77,720,189**
Net increase/(decrease) in cash and cash equivalents		**400,057,511**	**(86,060,175)**
Cash and cash equivalents, at 1 January		**395,630,545**	**481,549,945**
Effect of exchange rate fluctuations on cash and cash equivalents held		**-**	**140,775**
Cash and cash equivalents, at 31 December	**12**	**795,688,056**	**395,630,545**

The notes on pages 6 to 68 are an integral part of these financial statements.

Statement of cash flows (*continued)*

Interest received by the Bank during the year ended 31 December 2019 and 31 December 2018 amounted to 392,348,154 RON, and 269,521,446 RON. Interest paid by the Bank during the year ended 31 December 2018 and 31 December 2017 amounted to 68,686,224 RON, and 24,465,509 RON respectively.

In cash and cash equivalents are included the investments in securities of 50,863,094 RON with contractual maturity of up to 3 months (at 31 December 2018 there were 4,819,769 RON).

The financial statements were authorized for issue by the Board of Directors on 24 March 2020.

Eugen Goga,
Vice President

Doina Andrei,
Head of Finance Division

Notes to the financial statements

1. Reporting entity

Libra Internet Bank SA ("the Bank") was incorporated in Romania in 1996 and is licensed by the National Bank of Romania to conduct all commercial banking activities.

The Bank's corporate banking activities consist of: deposits taking, cards, cash management and lending. The Bank offers standard banking services and products related to foreign trade transactions, including payment orders, issuance of letters of credit and guarantees. The Bank offers a comprehensive range of banking services for individuals: current and term deposits, loans, domestic and international money transfers and payment orders, cards, electronic payment.

As the Bank's operations do not have significantly different risks and returns, and taking into account that the regulatory environment, the nature of its services, the business process, as well as the types of customers for the bank's products and services, as well as the methods used for providing services, are homogenous for all Bank's activities, the Bank operates as a single business segment unit and its activities are exclusively carried out in Romania.

The Bank operates through the head office located in Bucharest and through its network of 54 branches (2018: 50 branches).

The Bank is managed by a Board of Directors, made up of 4 members and by a Board of Administrators made up of 9 members, 5 executives and 4 nonexecutives.

The Bank's registered head office is located in Vitan Street, no. 6-6A, Phoenix Tower, and Bucharest, Romania.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union (EU).

This is the first set of the Bank's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 3.I.

(b) Functional and presentation currency

The accounts of the Bank are maintained in RON in accordance with Romanian accounting law and National Bank of Romania banking regulations. The financial statements are presented in RON, rounded to the nearest "leu".

(c) Basis of measurement

The financial statements of the Bank are prepared a historical cost basis except for the financial assets classified at fair value through profit or loss. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or revalued amount.

Notes to the financial statements

2. Basis of preparation *(continued)*

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

— Note 3. II. (d)(vi): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

— Notes 3.II (d)(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes:

— Notes 3.II.(d)(vi), 4 (a) and 5: impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

— Note 5 and 24: measurement of the fair value of financial instruments with significant unobservable inputs.

— Note 26: presentation of the effect of the unadjusting subsequent events and uncertainties related to future developments of the CoVid pandemic

Notes to the financial statements

3. Significant accounting policies

I. Changes in accounting policies

The Bank initially applied IFRS 16 *Leases* from 1 January 2019.

A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements.

The Bank applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i. Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3. II. j)

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

ii. As a lessee

As a lessee, the Bank leases some branch and office premises and IT equipment. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

Further, the Bank has not entered into any new leases during the year ended 31 December 2019, other than leases of low-value IT equipment.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

For leases of branches and office premises the Bank has elected to separate nonlease components and account for them in other operating expenses.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019 (see Note 3. I.(iv)).

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

Notes to the financial statements

3. Significant accounting policies *(continued)*

I. Changes in accounting policies (continued)

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

— relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;

— did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;

— did not recognize right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);

— excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and

— used hindsight when determining the lease term.

iii. As a lessor

The Bank does not carry out operations as a lessor.

iv. Impact on financial statements

On transition to IFRS 16, the Bank recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

In RON	**1 January 2019**
Right-of-use assets presented in Property, plant and equipment	53,798,524
Lease liabilities	53,798,524
Retained earnings	-

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 5.25%.

In RON	**1 January 2019**
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Bank's financial statements	63,506,276
Discounted using the incremental borrowing rate at 1 January 2019	(9,707,752)
Lease liabilities recognized at 1 January 2019	**53,798,524**

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies

These accounting policies adopted and applied by the Bank as set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

a) Foreign currency

Transactions denominated in foreign currency are translated to RON at the exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated to the functional currency at the exchange rate at that date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the income statement at the date of settlement using the exchange rate ruling on that date. Monetary assets and liabilities denominated in foreign currency are expressed in RON at the balance sheet date.

The exchange rates of major foreign currencies were:

Currencies	31 December 2019	31 December 2018	%
Euro (EUR)	1: RON 4.7793	1: RON 4.6639	+2.47%
US Dollar (USD)	1: RON 4.2608	1: RON 4.0736	+4.59%

Unrealized foreign currency gains/ (losses) arising from the translation of monetary assets and liabilities, and realized gains/ (losses) from dealing transactions in foreign currencies are reported in the income statement in line 'Net gain from foreign exchange transactions and revaluation'.

b) Interest income and expenses

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, under 'Net income from other financial instruments at FVTPL'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument. The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

c) Fees and commission income and expenses

Fee and commission income and expenses include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Bank's income statement include, among other things, fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Other fees receivable are recognized when earned. Dividend income is recognized when earned.

d) Financial assets and liabilities

Financial assets and financial liabilities recorded in the balance sheet include cash and cash equivalents, debt and equity securities, loans to customers, trade and other accounts receivable and payable, long-term loans, deposits and investments. The accounting principles for these items are disclosed in the respective accounting policies.

i. Recognition and initial measurement

The Bank recognizes the financial assets and liabilities in its balance sheet when, and only when, it becomes a part of the contractual provisions of the instrument.

The Bank initially recognizes loans and advances, deposits, borrowings received at fair value, on the date that they are originated. Regular transactions with debt and equity instruments are accounted for at the date when they are transferred (settlement date). All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument, at fair value less transaction costs that are directly attributable to the acquisition or issue.

If a financial asset or financial liability is recognized initially, the Bank measures it at its fair value plus or minus, in the case of a financial asset or financial liability, not at fair value through profit or loss, transaction costs that may be directly attributed to the acquisition or issue of the financial asset or financial liability.

ii. Classification

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") on the basis of both:

- The Bank's business model for managing the financial assets and
- Their characteristics regarding contractual cash flow (hereinafter referred to as the "SPPI test").

A financial asset measures at amortized cost if both of the following conditions are met and is not designated as at FVTPL:

(a) The asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

d) Financial assets and liabilities (continued)

ii. Classification (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

a) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

Business model

The business model reflects how the Bank manages a group of assets to generate cash flows and determines whether the cash flows will result from the collection of contractual treasury flows, sales or both. Consequently, the Bank has identified the following business models:

- Held to Collect;
- Held to Collect and Sale; and
- Other business models.

To classify a financial asset in the "Held to Collect" model, the Bank will have to assess whether the sales are compatible with this category:

a) there is no limitation on sales made due to the increase in credit risk. Near-maturity sales are allowed if certain criteria are met.
b) for all other sales, the Bank will have to assess whether these sales have significant value and the frequency level.

As part of this sales valuation, the Bank has established the following policy criteria and thresholds:

- When there was an increase in credit risk;
- When sales are considered close to maturity;
- When sales are considered significant for loans and bonds;
- When sales are considered frequent.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

d) Financial assets and liabilities (continued)

ii. Classification (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI Test)

With regard to the initial recognition of a financial instrument, the Bank assesses whether the cash flows represent Solely Payments of Principal and Interest (SPPI) which compensate the value in time of money, credit risk and other core lending risks (for example, liquidity risk, administrative costs and reasonable profit margin). Characteristics that are not related to the core lending arrangements will most likely fail at the test. All loans and debt securities that do not meet the SPPI criteria are measured at Fair Value through profit or loss (FVTPL).

The Bank classifies financial liabilities, other than financial guarantees and credit commitments, at amortized cost (AC) or at fair value through profit or loss (FVTPL).

Reclassifications

Reclassifications between measurement categories will be allowed only when the Bank changes its business model for a group of assets. These changes are expected to be very rare.

Financial liabilities

The Bank classified its financial liabilities as measured at amortized cost (i.e. Deposits from banks, Deposits from customers, Borrowings).

iii. Derecognition

The Bank derecognizes a financial asset when:

- the contractual rights to receive cash flows from that financial asset expire, or
- it transfers the financial asset and the transfer cumulatively fulfills the following 2 conditions:
  - transfers the contractual rights to receive cash flows from the financial asset, or
  - retains the contractual rights to receive cash flows from the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients under a contract that meets the following conditions:
    - ✓ The Bank has no obligation to pay amounts to prospective beneficiaries, unless the Bank collects equivalent amounts from the transferred asset;
    - ✓ The Bank is prohibited under the terms of the asset transfer contract to sell or pledge the initial asset, for reasons other than guaranteeing the obligation to pay cash flows to prospective beneficiaries;
    - ✓ The bank transfers any cash flows it collects on behalf of the beneficiaries, without significant delays.

The Bank will derecognize a financial liability when it is extinguished - e.g. when the obligation specified in the contract has been fulfilled, it is canceled or has expired.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

d) Financial assets and liabilities (continued)

iv. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis, or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

v. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

vi. Impairment

The Bank holds financial assets at amortized cost ("AC") in the form of loans and advances to customers, loans and advances to banks and debt securities. For financial assets measured at AC, the expected loss from impairment reduces their gross carrying amount and is recognized in profit or loss.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

d) Financial assets and liabilities (continued)

vi. Impairment (continued)

The Bank uses the three-stage ECL credit loss approach that reflects credit quality changes from initial recognition.

1. Stage 1 covers instruments that did not significantly deteriorate in terms of credit quality from initial recognition or instruments with low credit risk;
2. Stage 2 covers financial instruments that have deteriorated significantly in terms of credit quality since initial recognition but for which there is no objective evidence of an impairment event;
3. Stage 3 covers financial assets that have objective evidence of impairment at the time reporting.

Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

Instruments in Stages 2 or 3 have their expected credit losses measured based on expected credit losses on a lifetime basis.

The Bank recognizes loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized will be 12-month ECLs:

- Debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
- Other financial instruments for which credit risk has not increased significantly since initial recognition.

The impairment assessment require management judgments, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- Estimating the future cash-lows expected from loans and advances classified in Stage 3 and the probability of reasonable scenarios;
- Assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- Incorporating forward-looking information into the measurement of ECLs.

Measurement of ECLs

Expected credit losses are the difference between the total contractual cash flows due to the bank and the total cash flows the bank expects to receive (i.e. the total amounts not to be collected), updated to the effective interest rate at the time of the calculation. For unused credit commitments, credit loss is the present value of the difference between the contractual cash flows due to the bank if the borrower uses the loan and the cash flows the bank expects to receive if the loan is drawn.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

d) Financial assets and liabilities (continued)

vi. Impairment (continued)

In order to measure the expected credit loss, the Bank estimates future cash flows taking into account all terms and conditions of the financial instrument (e.g, spread, early maturity and similar options) over the estimated lifetime, including cash flows of the performance of the guarantee.

Predicted credit losses are an estimate of loan losses (i.e. the present value of the total cash deficit) over the estimated life of a financial instrument, based on a probability weighted-value.

The ECL is determined separate for individually analyzed exposures and for collective analyzed exposures.

The individual credit exposures analysis in the ECL calculation process is applied to the following groups of exposures:

Significant individual exposures;

- Significant non-performing exposures that have up to 90 days of arrears; exposures of debtors in bankruptcy, or similar states;
- Exposures of customers with debt service over 180 days, without eligible collateral;
- Assets that register a debt service for more than 360 days and for which no legal proceedings have been initiated,
- Exposures individually identified as being impaired;
- All exposures exposed to the risk of exercising the debtor's legal option to pay the mortgaged property.

Collective Analysis.

Under IFRS 9, customers are staggered according to the associated risk as follows:

Stage 1 - Clients with debt service less than 30 days and no information as to the increase in credit risk;

Stage 2 - Clients with increased credit risk identified by:

- debt service higher than 30 days;
- Debtors restructured during the probation period as defined in the Non-performing Exposures Procedure;
- Clients on watch list.

Stage 3 - Defaulted clients as identified by the criteria listed under the Non-Performing Exposure Procedure ("the Procedure").

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

d) Financial assets and liabilities (continued)

vi. Impairment (continued)

Default status

The Bank uses the following default definition, as described in the Procedure:

- Debt service higher than 90 days;
- Court proceedings having been initiated against the debtor in order to recover the outstanding;
- Debtors in bankruptcy, insolvency, preventive conciliation, and similar status;
- Borrowers who have benefited from restructuring operations with financial difficulties and are classified as non-performing restructuring in accordance with the Procedure.

The Bank applies the principle of contamination: if one client has a defaulted exposures, all the other exposures of the client will be considered in default.

POCI exposures (impaired on purchase or origin)

Credit exposures classified as impaired at acquisition or origination (POCI) are those exposures showing evidence of impairment from origination, either at the time of acquisition or at the time of origination if the exposure resulted from a derecognition process of another exposure was depreciated.

Significant increase in credit risk

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework is aligned with the Bank's internal credit risk management process.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not overlap with the same point in time when an asset becomes 30 days past due;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

d) Financial assets and liabilities (continued)

vi. Impairment (continued)

The Bank primarily identifies whether a significant increase in credit risk occurred since the initial recognition based on the information held by the Bank that allow a realistic assessment of the client's reimbursement capacity. Also are considered relevant data regarding the market value evolution of the collaterals supporting the obligation, changes in the quality of the guarantees by guarantors, changes in the payment status of borrowers in the group, etc.

The Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

The criteria for determining whether credit risk has increased significantly varies by portfolio and include a backstop based on delinquency. As a backstop the Bank presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

vii. Modification of financial assets

If the terms of a financial assets are modified, the Bank evaluates whether the cash-flows of the modified asset are substantially different. If the cash-flows are substantially different, then the contractual rights to the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized (see 3 d) *iii*) and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If the cash flows are modified as a result of financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms than to originate an asset with substantially different terms. If the Bank plans to modify an asset in a way that would result in forgiveness of cash-flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below the write-off policy). In these cases, the derecognition criteria are not met but the assessment is taken into account in the measurement of expected credit losses.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

d) Financial assets and liabilities (continued)

viii. Write off policy

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash-flows to repay the amounts subject to write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in "Impairment losses on financial instruments" in the income statement. Financial assets written off could still be subject to enforcement activities in order to comply with the Bank's procedure for recovery of amounts due.

e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position. For purposes of the cash flow statement, the minimum reserve deposit required by the National Bank of Romania is not included as a cash equivalent due to restrictions on its availability.

f) Loans and advances

Loans and advances' captions in the statement of financial position include loans and advances measured at amortized cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;

g) Investment securities

The 'investment securities' caption in the statement of financial position includes:

- Debt securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- Equity securities measured at FVTPL; these are at fair value with changes recognized immediately in profit or loss;

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

h) Fixed tangible and intangible assets

Tangible and intangible assets are stated at their historical cost less accumulated depreciation and impairment.

The Bank recognizes in the carrying amount of tangible assets the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditures are recognized in the statement of profit or loss as an expense as incurred.

Depreciation and amortization is provided on a straight-line basis over the estimated useful lives of each item of the tangible and intangible assets category, as follows:

Buildings	2%
Equipment, fixtures and fittings	5 - 20%
Vehicles	20%
Others	6.67%-3.34%
Software	33.33%

Depreciation methods and useful lives are reassessed at each reporting date.

Gains and/or losses from de-recognition of tangible and intangible assets are determined as difference between revenues from sales of tangible assets and the expenses with their disposal and /or their retirement and are recognized in profit or loss for the year (within other operating income or expenses).

i) Impairment of non-financial assets

The carrying amounts of the Bank's assets other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

i) Impairment of non-financial assets (continued)

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

j) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

For leases of branches and office premises the Bank has elected to separate nonlease components and account for them in other operating expenses.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

j) Leases (continued)

Lease payments included in the measurement of the lease liability comprise the following:

— fixed payments, including in-substance fixed payments;

— variable lease payments that depend on an index or a rate, initially measured using the index or

rate as at the commencement date;

— amounts expected to be payable under a residual value guarantee; and

— the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

— fulfilment of the arrangement was dependent on the use of a specific asset or assets; and

— the arrangement had conveyed a right to use the asset.

The Bank did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognized in the Bank's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

k) Deposits from customers

Deposits from customers are initially measured at fair value plus transaction costs, and subsequently measured at amortized cost using the effective interest method.

l) Borrowings and loans from financial institutions

Borrowings such as loans from banks and other financial institutions are recognized initially at fair value, net of transaction costs occurred. Borrowings and Loans from financial institutions are subsequently stated at amortized cost.

m) Provisions

A provision is recognized in the statement of financial position when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

n) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortized amount and the amount of loss allowance.

The Bank has issued no loan commitments that are measured at FVTPL. Also, the Bank has issued no loan commitments to provide loans at a below-market interest rate.

For other loan commitments, the Bank recognizes impairment allowance in accordance with IFRS9, refer to accounting policy 3.II.d) *vi*.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

o) Employee benefits

Short-term employee benefits include wages, salaries, bonuses and social security contributions. Short-term employee benefits are recognized as expense when services are rendered.

The Bank, in the normal course of business makes payments to the Romanian State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the Bank are members

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

o) Employee benefits (continued)

and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognized as an expense in the income statement as incurred. The Bank does not have any further obligations. The Bank does not operate any independent pension scheme and, consequently, has no obligation in respect of pensions. The Bank does not operate any other postretirement benefit plan. The Bank has no obligation to provide further services to current or former employees.

p) Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of prior periods.

Deferred tax is provided using the balance-sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance-sheet date. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

The deferred tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the tax related benefit will be realized. Current and deferred tax receivables and payables are offset only when they are related to the same tax entity, they are related to the same tax authority and when there is a legal right to set off. The tax rate used to calculate the current and deferred tax position at 31 December 2019 is 16% (31 December 2018: 16%). Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Notes to the financial statements

3. Significant accounting policies *(continued)*

II. Accounting policies (continued)

q) New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2019 and have not been applied in preparing these financial statements. Of these pronouncements, the following will potentially have an impact on the Bank's financial statements. The Bank plans to adopt these pronouncements when they become effective.

A. Standards, Interpretations and amendments to published Standards as adopted by the EU that are not yet effective for annual periods beginning on 1 January 2019

— *Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* (Effective for annual periods beginning on or after 1 January 2020). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The Bank does not expect the Amendments to have a material impact on its financial statements when initially applied

B. Standards and interpretations not yet endorsed by the EU as at 1 January 2020

The following amended standards are not expected to have a significant impact on the Bank's financial statements:

— Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture
— IFRS 17 Insurance Contracts
— Amendments to IFRS 3 Business Combinations

4. Financial risk management

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

The Bank has exposure to the following risks from financial instruments:

a. credit risk;
b. liquidity risk;
c. market risks (interest rate risk, foreign currency risk and price risk)

a. Credit risk

The Bank takes on the exposure to credit risk with respect to all credit facilities and loans granted, which is the risk that the counterparty may be unable to pay the amounts in full when they fall due. The Bank's objective regarding credit risk management is to improve and to maintain the loan portfolio quality by monitoring the loan exposures to private individuals, professionals, corporate and real estate clients.

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

The exposure to credit risk is managed through a regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining mortgage collaterals and also corporate and personal guarantees.

The Bank's strategy regarding credit risk management includes in particular:

- Limiting and decreasing the concentration risk: achieved through monitoring of particular categories of customers, monitoring of exposures to individual debtors and groups of connected debtors, monitoring of exposures to geographical segments, monitoring of exposures to economic sectors, monitoring of exposures to specific lending products and risk diversification;
- Increasing the quality of collaterals;
- Limiting the credit risk per types of collaterals accepted;
- Credit risk control: through loans preapproval process and subsequent credit control procedures
- Ensuring the adequate management of the credit risk by preparation and analysis of specific reports;
- Developing and maintaining the internal process of early warning and recovering of outstanding receivables;
- Regular monitoring of loans including monitoring of debt service rating of the borrowers;
- Portfolio review based on a system of credit risk indicators with predefined alert thresholds

Collaterals received from customers

As part of its credit risk management policy the Bank calls for adequate collateral on approving loans to customers. In accordance with the internal regulations the Bank accepts as collaterals the following types of assets:

- Real estate mortgage and production facilities;
- Merchandise stock and equipment;
- Securities;
- Cash collaterals and deposits;
- Liens over receivables;
- Insurance policies;
- Financial guarantees.

With respect to the above mentioned types of collaterals the Bank's policy is that the ratios of the collaterals values to the loans approved shall be as follows:

- Real estate mortgages and guarantee funds: between 110/120% and 120/150% depending on customer risk grading (exception from this rule: loans to professional customers that have a coverage degree of minimum 100%);
- Merchandise stock and equipment: minimum 130%;

Cash collaterals, deposits, securities and financial guarantees: minimum 100%.

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost (2018 and 2019). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 3.II. (d) (iv). The customers are classified into 4 risk categories representing the following:

- Standard – all financial assets measured at amortized cost which are current or with days past due less than 30 days and which are not in Watch List;
- >30 Days – all financial assets measured at amortized cost with days past due greater than 30 Days and which are not impaired;
- Watchlist – Financial assets measured at amortized cost which are identified with increased credit risk based on internal procedure and are classified either in Stage 2 or in Stage 3 – only if unlikeness to pay conditions are identified;
- Loss – Financial assets measured at amortized cost included in Stage 3.

	2019			
RON	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to Banks				
Standard	1,307,129,974	-	-	1,307,129,974
Loss Allowance	**(82,337)**	**-**	**-**	**(82,337)**
Carrying amount	**1,307,047,638**	**-**	**-**	**1,307,047,638**
Investment securities				
Standard	980,339,157	-	-	980,339,157
Loss Allowance	**(114,081)**	**-**	**-**	**(114,081)**
Carrying amount	**980,225,075**	**-**	**-**	**980,225,075**
Loans and advances to customers				
Standard	3,881,419,909	-	-	3,881,419,909
>30 Days	-	7,991,781	-	7,991,781
Watchlist	-	93,129,923	-	93,129,923
Loss	-	-	92,613,501	92,613,501
Loss Allowance	**(9,451,555)**	**(715,207)**	**(51,604,541)**	**(61,771,303)**
Carrying amount	**3,871,968,354**	**100,406,497**	**41,008,961**	**4,013,383,812**

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

i. Credit quality analysis (continued)

	2019			
RON	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments and financial guarantee contracts				
Standard	1,180,756,650	-	-	1,180,756,650
>30 Days	-	4,500	-	4,500
Watchlist	-	16,429,895	-	16,429,895
Loss	-	-	8,460,361	8,460,361
Loss Allowance	(630,357)	(26,043)	(620,701)	(1,277,101)
Carrying amount	**1,180,126,293**	**16,408,352**	**7,839,660**	**1,204,374,305**

	2019			
RON	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortized cost - gross carrying amount				
Current	3,752,728,030	74,192,588	22,853,971	3,849,774,589
Overdue < 30 days	128,691,879	11,726,559	5,507,789	145,926,227
Overdue > 30 days	-	15,202,557	64,251,742	79,454,299
Total	**3,881,419,909**	**101,121,704**	**92,613,501**	**4,075,155,115**
Loss allowance	(9,451,555)	(715,207)	(51,604,541)	(61,771,303)
Carrying amount	**3,871,968,354**	**100,406,497**	**41,008,961**	**4,013,383,812**
Loan Commitments and Financial guarantee contracts				
All grades - Standard to Loss	1,180,756,650	16,434,395	8,460,361	1,205,651,406
Loss Allowance	(630,357)	(26,043)	(620,701)	(1,277,101)
Carrying amount	**1,180,126,293**	**16,408,352**	**7,839,660**	**1,204,374,305**

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

i. Credit quality analysis (continued)

	2018			
RON	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to Banks				
Standard	1,470,285,212	-	-	1,470,285,212
Loss Allowance	**(85,005)**	**-**	**-**	**(85,005)**
Carrying amount	**1,470,200,207**	**-**	**-**	**1,470,200,207**
Investment securities				
Standard	582,838,633	-	-	582,838,633
Loss Allowance	**(71,202)**	**-**	**-**	**(71,202)**
Carrying amount	**582,767,431**	**-**	**-**	**582,767,431**
Loans and advances to customers				
Standard	3,119,016,688	3,387,148	-	3,122,403,816
>30 Days	-	7,434,968	-	7,434,968
Watchlist	-	84,089,848	15,662,944	99,752,792
Loss	-	-	74,818,435	74,818,435
Loss Allowance	**(7,384,980)**	**(468,739)**	**(45,036,773)**	**(52,890,492)**
Carrying amount	**3,111,631,688**	**94,443,224**	**45,444,606**	**3,251,519,519**
Loan commitments and financial guarantee contracts				
Standard	1,021,149,149	924	-	1,021,150,073
>30 Days	-	1,273,066	-	1,273,066
Watchlist	-	4,339,586	1,316,341	5,655,927
Loss	-	-	217,806	217,806
Loss Allowance	**(599,335)**	**(14,194)**	**(100,529)**	**(714,058)**
Carrying amount	**1,020,549,814**	**5,599,383**	**1,433,618**	**1,027,582,815**

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

i. Credit quality analysis (continued)

	2018			
RON	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortized cost - gross carrying amount				
Current	3,023,311,247	49,149,765	16,914,917	3,089,375,929
Overdue < 30 days	95,705,423	28,003,252	11,046,209	134,754,884
Overdue > 30 days		17,758,945	62,520,253	80,279,199
Total	**3,119,016,670**	**94,911,962**	**90,481,379**	**3,304,410,011**
Loss allowance	(7,384,980)	(468,739)	(45,036,773)	(52,890,492)
Carrying amount	**3,111,631,690**	**94,443,223**	**45,444,606**	**3,251,515,519**
Loan Commitments and Financial guarantee contracts				
All grades - Standard to Loss	1,021,149,149	5,613,577	1,534,147	1,028,296,873
Loss Allowance	(599,335)	(14,194)	(100,529)	(714,058)
Carrying amount	**1,020,549,814**	**5,599,383**	**1,433,618**	**1,027,582,815**

The Bank holds loans and advances to banks of RON 1,307,129,974 as at 31 December 2019 (31 December 2018: RON 1,470,285,212). The loans and advances with the National Bank in amount of RON 652,781,859 (31 December 2018: RON 1,154,189,161), fall under the rating BBB-, Baa3, BBB-, based on the ratings issued by Fitch, Moody's or Standard & Poor's.

The investments securities at amortized cost as at 31 December 2019 and 31 December 2018 include treasury bills and bonds issued by the Government of Romania, with Standard & Poor's rating of BBB-.

ii. Collateral held

The Bank holds collateral against certain of its credit exposures. The following tables stratify credit exposures split by loans to retail customers (private individuals) and loans and advances to non-retail customers (legal entities) by ranges of loan-to-value (LTV) ratio.

LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral is based on the most recent appraisals. The Bank's policy is to revalue residential mortgage every three years and commercial mortgage every year.

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

ii. Collateral held (continued)

RON	Gross carrying amounts					
RETAIL	**31 December 2019**			**31 December 2018**		
LTV	Not impaired loans	Impaired loans	**TOTAL**	Not impaired loans	Impaired loans	**TOTAL**
Less than 50%	32,667,694	460,316	33,128,010	25,884,010	251,207	**26,135,217**
51-70%	16,164,909	549,705	16,714,615	11,845,092	-	**11,845,092**
71-90%	48,265,862	-	48,265,862	22,193,382	-	**22,193,382**
91-100%	52,597,023	-	52,597,023	31,469,190	-	**31,469,190**
More than 100%	4,927,940	-	4,927,940	4,115,474	9,609	**4,125,083**
Grand Total	**154,623,428**	**1,010,022**	**155,633,450**	**95,507,148**	**260,816**	**95,767,964**

RON	Gross carrying amounts					
NON RETAIL	**31 December 2019**			**31 December 2018**		
LTV	Not impaired loans	Impaired loans	**TOTAL**	Not impaired loans	Impaired loans	**TOTAL**
Less than 50%	802,472,281	18,698,559	821,170,840	761,541,168	10,096,615	771,637,783
51-70%	1,170,730,525	10,857,919	1,181,588,444	931,178,398	14,204,282	945,382,680
71-90%	1,237,578,242	12,132,421	1,249,710,663	993,051,698	12,032,734	1,005,084,432
91-100%	190,767,864	1,312,656	192,080,520	191,813,001	3,076,270	193,889,271
More than 100%	426,369,274	48,601,924	474,971,198	240,840,779	50,807,102	291,647,881
Grand Total	**3,827,918,186**	**91,603,479**	**3,919,521,665**	**3,118,425,044**	**90,217,003**	**3,208,642,047**

The table below sets out the carrying amount and the value of identifiable collateral (mainly real estate and cash collateral) held against loans and advances to customers. For each loan, the value of disclosed collateral is capped at the carrying amount of the loan that it is held against.

	2019		**2018**	
RON	**Carrying amount**	**Collateral**	**Carrying amount**	**Collateral**
Stages 1 and 2	3,972,374,851	3,359,313,806	3,206,071,131	2,690,287,114
Stage 3	41,008,961	60,397,369	45,444,606	56,888,547

During 2019 and 2018, the Bank did not obtain any assets by taking possession of collateral.

4. Financial risk management (continued)

a. Credit risk (continued)

iii. Amounts arising from expected credit losses ("ECL")

Inputs, assumptions and techniques used for estimating impairment

For a description of the Bank's policy related to impairment of financial assets, please refer to 3. II. (d) (vi). The key inputs into the measurement of ECLs include the following variables:

- Probabilities of default ("PD");
- Loss given default ("LGD");
- Exposure at default ("EAD"); and
- Forward looking information ("FLI").

For purpose of estimating PDs the Bank collects performance and default information about its credit risk exposures analyzed by borrower and by type of product. The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors – gross domestic product ("GDP").

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The scope of LGD calculation is to reflect the cash flows arising from the various ways that the loans may be recovered, not only throughout foreclosure. Therefore, the following two components are determined: LGD secured reflecting Bank's collaterals recoverability experience at guarantee type; LGD unsecured reflects the recoverability of the unsecured exposure for each of the homogeneous portfolios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortization. The EAD of a financial asset is the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract using credit conversion factors.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECLs considering a tenor computed as the maximum between 12-month and the actual contractual period over which the Bank it is exposed to credit risk.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

iii. Amounts arising from expected credit losses ("ECL") (continued)

- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include type of counterparty and type of products. The grouping is subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. The current groups are: Private Individuals, Corporate, Agribusiness, Professionals, Real Estate, Banks, Treasury bills and bonds.

The credit risk is deemed to have increased significantly since initial recognition based on quantitative and qualitative factors linked to the Bank's credit risk management processes. This will be the case for exposures that meet certain heightened risk criteria that lead to placement on a watch list. Such factors are based on its expert judgment and relevant historical experiences:

- debt service of loans at other financial institutions
- performing forbearance in probation
- financial difficulties at the level of client's Bank
- depreciation of the client's rating
- clients with request for insolvency from third parties
- other qualitative criteria, depending of the severity, such us: decrease of the turnover throughout Bank's account, CIP incidents, breaching of the contractual covenants, garnishments measured as percentage from the turnover, PAR 90 for the last 12 months, rating deterioration to D2 etc)

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Bank incorporates forward-looking information into the measurement of ECL. The Bank formulates three economic scenarios: a base case, which is the median scenario, and two less likely scenarios, one downside and one crisis.

	2019			2018		
As of 31 December	Base case	Downside	Crisis	Base case	Downside	Crisis
Scenario probability weighting	45%	35%	25%	60%	35%	5%

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

iii. Amounts arising from expected credit losses ("ECL") (continued)

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities, supranational organizations such as the International Monetary Fund, World Bank, European Commission, etc.

The forward-looking scenarios are reviewed whenever relevant significant forecasts become available. A comprehensive review is performed at least annually on the design of the scenarios with the closely involvement of the Bank's senior management.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key driver for credit risk for credit portfolio is GDP growth, this being the only parameter for which was identified an adequate correlation with the historic PD of the Bank.

The Bank used the following scenarios of GDP growth in its calculation of expected credit losses:

December 2019

Year of forecast	Base case scenario	Pessimistic scenario	Worst case scenario
1	3.3%	3.3%	-1.4%
2	3.1%	2.5%	-1.9%
3	2.5%	2.0%	0.5%

December 2018

Year of forecast	Base case scenario	Pessimistic scenario	Worst case scenario
1	3.4%	3.4%	-1.6%
2	3.3%	2.7%	0.8%
3	3.2%	2.4%	0.8%

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

iii. Amounts arising from expected credit losses ("ECL") (continued)

Modified financial assets

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the reporting date based on the modified terms with the initial recognition and the original contractual terms. When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans may be subject to the forbearance transactions. The Bank's Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the borrower's payment performance is evaluated against the modified contractual terms and considers various behavioral indicators. Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3.II.d), vi). A customer needs to demonstrate consistently good payment behavior over a period of time (minimum 12 months) before the exposure is no longer considered to be credit-impaired/in default such that the loss allowance reverts to being measured at an amount equal to Stage 2 during a 24 month probation period and afterwards in Stage 1 if good payment behavior is proven.

The gross carrying amount of loans with renegotiated terms (and related allowance for impairment) is as follows:

In RON	**31 December 2019**	**31 December 2018**
Gross amount	**111,414,521**	**87,471,355**
Allowance for impairment	(23,929,080)	(19,586,079)
Carrying amount	**87,485,442**	**67,885,276**

Restructured exposures are loan contracts for which restructuring measures have been applied and which are still under closed monitoring.

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

iii. Amounts arising from expected credit losses ("ECL") (continued)

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

	2019			
In RON	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks				
Balance at 1 January	**85,005**	**-**	**-**	**85,005**
Transfer to Stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	**2,668**	-	-	**2,668**
Balance at 31 December	**82,337**	**-**	**-**	**82,337**

	2018			
In RON	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks				
Balance at 1 January	**52,225**	**-**	**-**	**52,225**
Transfer to Stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	**32,780**	-	-	**32,780**
Balance at 31 December	**85,005**	**-**	**-**	**85,005**

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

iii. Amounts arising from expected credit losses ("ECL") (continued)

	2019			
In RON	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities				
Balance at 1 January	**71,202**	**-**	**-**	**71,202**
Transfer to Stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	**42,879**	-	-	**42,879**
Balance at 31 December	**114,081**	-	-	**114,081**

In 2018, similarly to 2019, there were no transfers between Stages for investment securities.

	2019			
In RON	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers				
Balance at 1 January	**7,384,980**	**468,739**	**45,036,773**	**52,890,492**
Transfer to Stage 1	534,439	(134,309)	(400,130)	-
Transfer to Stage 2	(260,673)	1,107,490	(846,817)	-
Transfer to Stage 3	(58,864)	(54,399)	113,263	-
New or variation financial assets originated or purchased	2,653,545	(638,580)	17,014,685	19,029,650
Financial assets that have been derecognized	(801,871)	(33,734)	(9,313,234)	(10,148,839)
Balance at 31 December	**9,451,556**	**715,207**	**51,604,541**	**61,771,304**

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

iii. Amounts arising from expected credit losses ("ECL") (continued)

	2018			
In RON	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers				
Balance at 1 January	**6,642,654**	**127,998**	**38,270,876**	**45,041,528**
Transfer to Stage 1	80,185	(24,391)	(55,794)	-
Transfer to Stage 2	(214,394)	319,918	(105,524)	-
Transfer to Stage 3	(131,413)	(33,348)	164,761	-
New or variation financial assets originated or purchased	1,669,673	96,486	14,000,841	15,767,000
Financial assets that have been derecognized	(661,725)	(17,924)	(7,238,387)	(7,918,036)
Balance at 31 December	**7,384,980**	**468,739**	**45,036,773**	**52,890,492**

Deposits at other banks and at National Bank of Romania and treasury bills owned by the Bank are neither past due, not impaired and are in good (standard) credit quality.

iv. Concentration risk

The maximum exposure of the Bank to credit risk is as follows:

In RON	**31 December 2019**	**31 December 2018**
Cash and cash equivalents	90,559,183	74,799,730
Loans and advances to the National Bank of Romania	652,781,859	1,154,189,161
Loans and advances to banks	654,265,779	316,011,046
Loans and advances to customers	4,013,390,330	3,251,519,519
Investment securities at amortized cost	980,225,075	582,767,431
Total	**6,391,222,226**	**5,379,286,887**

Notes to the financial statements

4. Financial risk management (continued)

a. Credit risk (continued)

iv. Concentration risk (continued)

The Bank monitors concentration risk by:

— Geographical regions:

Indicator	B-I	South (Muntenia)	Centre-N-V (Transilvania)	S-E	N-E	Total
% Exposure	59.13%	6.54%	16.71%	8.16%	9.47%	100.00%
% NPL	2.67%	4.08%	1.27%	1.17%	1.30%	2.28%
% Stage 2	2.66%	2.91%	2.54%	2.17%	1.21%	2.48%

— Industry/sector

Analysis by industry	31 December 2019	31 December 2018
Construction	808,600,668	606,287,279
Wholesale and retail trade	388,399,287	294,261,926
Agriculture, forestry and fishing	645,805,175	456,837,785
Real estate transactions	717,031,185	638,928,548
Manufacturing industry	146,483,062	132,996,141
Professional, scientific and technical activities	267,909,298	232,936,279
Hotels and restaurants	249,439,504	185,882,808
Financial intermediation and insurance	38,970,468	50,760,648
Health and social care	339,108,384	312,922,191
Information and communications	43,842,319	45,365,091
Production and supply of electric and thermal energy, gas, hot water and air conditioning	26,632,169	6,153,753
Transport and storage	25,395,724	38,238,876
Other service activities	15,432,052	11,547,687
Water distribution; sanitation, waste management, decontamination activities	71,803,307	67,954,995
Administrative support activities and support activities	80,651,032	86,560,876
Performing, cultural and recreational activities	28,995,490	21,364,595
Extractive industry	3,411,434	3,245,161
Education	7,625,530	1,457,510
Public administration and defense; social insurance in the public system	49,218	58,039
Individuals	169,576,329	110,649,823
TOTAL	**4,075,161,635**	**3,304,410,011**

Notes to the financial statements

4. Financial risk management (continued)

b. Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Bank controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period.

In order to monitor and manage the liquidity risk the Bank calculates the following liquidity ratios:

- Immediate liquidity: this liquidity indicator is calculated as the ratio of highly liquid assets to total borrowed funds and is used for daily liquidity monitoring by the Bank's management and the Treasury Division. The minimum limit established by the Bank's management for this indicator in 2019 was 42%. At 31 December 2019 the liquidity indicator was 41.04%.
- Liquidity indicator depending on maturity bands: this liquidity indicator is calculated by dividing the assets of the Bank by its liabilities as adjusted by their remaining maturities. This indicator is calculated monthly and is monitored by the Bank's management and the Treasury Division. The minimum limit established by the Bank's management for this indicator is 100%.
- Resources concentration degree: this indicator is calculated to measure the dependence of the Bank on a single deponent or a group of related deponents and is calculated as the total funds from single deponents divided by the total borrowed funds. This indicator is calculated regularly and its maximum limit is established by the Bank's management at 40%.
- Loans to total assets and loans to borrowed funds ratios: these liquidity indicators are regularly calculated to establish if the strategic directions of the liquidity risk management policies are being followed within the credit policy of the Bank. The maximum limits established by the Bank's management for these indicators are 60%-62% and 70%-72%, respectively.

Maturity analysis of assets and liabilities as at 31 December 2019 and 31 December 2018 is disclosed in bellow. The assets and liabilities remaining maturities are presented therein, as established in contracts concluded by Bank. However, current accounts and deposits from customers have a historically proven stickiness, which means they will not be reimbursed as contractually stated, but rather prolonged, therefore the liquidity gap as presented in these financial statements does not represent any imminent risk for the Bank.

Notes to the financial statements

4. Financial risk management (continued)

b. Liquidity risk (continued)

ANALYSIS OF MATURITY OF FINANCIAL LIABILITIES BASED ON UNDISCOUNTED CASH FLOWS

The following tables detail the Bank's remaining contractual maturities for its financial liabilities. This analysis has been drawn up based on the undiscounted cash flows of financial liabilities and the earliest date on which the Bank can be required to settle its liabilities, and includes both interest and principal cash flows.

	Up to 1 month	1-3 Months	3 Months – 1 year	1-5 years	Over 5 years	Total
31 December 2019						
Deposits from other banks	-	-	-	-	-	-
Customer deposits and savings accounts (incl interests)	3,013,068,079	726,225,900	1,787,718,083	221,634,213	7,303	5,748,653,578
Loans from financial institutions	3,292,646	1,493,531	4,822,460	31,238,089	-	40,846,726
Total financial liabilities	**3,016,360,725**	**727,719,431**	**1,792,540,543**	**252,872,302**	**7303**	**5,789,500,304**
Off Balance sheet commitments	**23,004,950**	**35,455,055**	**320,367,652**	**439,993,108**	**386,830,642**	**1,205,651,406**

	Up to 1 month	1-3 Months	3 Months – 1 year	1-5 years	Over 5 years	Total
31 December 2018	-	-	-	-	-	-
Customer deposits and savings accounts	2,206,296,041	954,403,880	1,532,876,265	113,442,698	181,099	4,807,199,983
Loans from financial institutions	3,499,257	1,789,189	17,001,300	32,936,420	9,615,577	64,841,743
Total financial liabilities	**2,209,795,298**	**956,193,069**	**1,549,877,565**	**146,379,118**	**9,796,676**	**4,872,041,726**
Off Balance sheet commitments	**40,297,363**	**30,260,872**	**271,385,125**	**431,848,675**	**254,504,838**	**1,028,296,873**

Notes to the financial statements

4. Financial risk management (continued)

b. Liquidity risk (continued)

ANALYSIS OF ASSETS AND LIABILITIES BY REMAINING MATURITY (DISCOUNTED CASH-FLOWS)

	Up to one month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Non-defined maturity	TOTAL
31 December 2019							
ASSETS							
Cash and balances with banks	744,824,962	-	-	-	-	-	744,824,962
Balance due from the National Bank of Romania	652,781,859	-	-	-	-	-	652,781,859
Loans and advances to customers	64,466,763	74,479,575	379,220,135	1,221,039,309	2,274,184,548	-	4,013,390,330
Other assets	47,133,825	2,148,275	1,849,491	405,430	65,537	11,736,815	63,339,372
Investments	-	50,863,094	345,719,054	510,302,340	73,340,587	11,218,685	991,443,760
Total assets	**1,509,207,409**	**127,490,944**	**726,788,680**	**1,731,747,078**	**2,347,590,671**	**92,955,500**	**6,531,185,539**
Liabilities							
Customer deposits and savings accounts	2,985,273,017	739,606,947	1,761,573,726	181,754,732	7,303	-	5,668,215,725
Other liabilities	13,544,787	1,251,912	1,408,569	13,822,503	39,002,852	24,803,734	93,834,356
Loans from financial institutions	3,329,929	1,493,531	4,822,460	31,200,806	-	-	40,846,726
Total liabilities	**3,002,147,733**	**742,352,391**	**1,767,804,754**	**226,778,041**	**39,010,155**	**24,803,734**	**5,802,896,707**
Liquidity risk at 31 December 2019	**(1,496,134,545)**	**(614,861,447)**	**(1,041,016,074)**	**1,504,969,037**	**2,308,580,517**	**66,751,244**	**728,288,732**
Cumulative liquidity gap	**(1,496,134,545)**	**(2,110,995,991)**	**(3,152,012,066)**	**(1,647,043,028)**	**661,537,488**	**728,288,732**	**-**

The short-term refinancing of the Bank is assured by the possibility of refinancing with other banks as well as by the availability of loan facility in amount of USD 60 million concluded with Broadhurst Investments Limited and by adoption of adequate interest policy which would allow for attracting higher volume of resources. The Bank has assets pledged as collateral amounting RON 33.3 mil for daily settlement activity with Visa, Mastercard and SENT. The liquidity gap risk could further be mitigated by short term operations of reverse repo with NBR using T-Bills. In addition to this, the majority of customer deposits with maturities less than 3 months are rollover deposits.

Notes to the financial statements

4. Financial risk management (continued)

b. Liquidity risk (continued)

ANALYSIS OF ASSETS AND LIABILITIES BY REMAINING MATURITY (DISCOUNTED CASH-FLOWS)

	Up to one month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Non-defined maturity	TOTAL
31 December 2018							
ASSETS							
Cash and balances with banks	390,810,776	-	-	-	-	-	390,810,776
Balance due from the National Bank of Romania	1,154,189,161	-	-	-	-	-	1,154,189,161
Loans and advances to customers	53,887,731	64,744,182	382,080,507	1,053,507,898	1,697,299,201	-	3,251,519,519
Other assets	42,685114		2,749,7181	242,897	4,299	11,982,261	57,664,289
Investments	4,819,180	-	169,897,128	350,208,036	57,843,087	1,989,660	584,757,091
Total assets	**1,646,391,962**	**64,744,182**	**554,727,353**	**1,403,958,831**	**1,755,146,587**	**13,971,921**	**5,438,940,836**
Liabilities							
Depsits from other banks	-	-		-	-	-	-
Customer deposits and savings accounts	2,203,216,125	950,611,336	1,506,519,705	98,896,871	135,406	-	4,759,379,443
Other liabilities	4,370,822	2,992,688	3,179,434	2,050,033	173,358	2,455,797	15,222,132
Loans from financial institutions	3,410,837	1,457,469	15,468,826	28,316,536	8,744,813	-	57,398,480
Total liabilities	**2,210,997,784**	**955,061,493**	**1,525,167,965**	**129,263,440**	**9,053,577**	**2,455,797**	**4,832,000,055**
Liquidity risk at 31 December 2018	**(564,605,822)**	**(890,317,311)**	**(970,440,612)**	**1,274,695,391**	**1,746,093,011**	**11,516,124**	**606,940,781**
Cumulative liquidity gap	**(564,605,822)**	**(1,454,923,133)**	**(2,425,363,745)**	**(1,150,668,354)**	**595,424,657**	**606,940,781**	**-**

Notes to the financial statements

4. Financial risk management (continued)

c. Market risk

Market risk represents the current or prospective risk to earnings and capital arising from adverse market movements in equities prices and interest rates, as well as from movements in foreign exchange rate and commodities prices for the whole business of the credit institution. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Foreign currency risk

The Bank enters into transactions in both Romanian Lei (RON) and foreign currencies. Hence, exposures to foreign exchange rates fluctuations arise. The Bank is mainly exposed to a risk of exchange rate change for monetary assets and liabilities denominated in USD and EUR, which constitute the most part of its foreign currency denominated assets and liabilities.

In order to manage the foreign currency risk the Bank maintains open currency exposure within the following limits as required by the National Bank of Romania:

- Net exposure in single foreign currency – no more than 10% of total own funds calculated in accordance with the requirements of the National Bank of Romania.
- Net aggregated exposure in foreign currencies – no more than 20% of total own funds calculated in accordance with the requirement of the National Bank of Romania.

As of 31 December 2019 and 2018, the net exposure of the Bank to foreign currency risk is as follows:

Currency	31 December 2019	31 December 2018
EUR	(2,485,078)	(324,379)
USD	7,615,924	89,163
GBP	(25,273)	(88,812)
CHF	33,985	117,119
SEK	16,348	3,940
CAD	21,766	(92,893)
Other	61,640	214,222
Total exposure	**5,239,312**	**(81,640)**

All amounts are in RON equivalent.

Foreign currency sensitivity analysis

The following information reflects the Bank's sensitivity to depreciation and appreciation of the domestic currency against EUR, USD, GBP, CHF, SEK and CAD by 5%. 5% is the sensitivity rates which has been used for reporting the foreign currency risk exposure by the Bank for internal risk management purposes and represents the Bank's assessment of the reasonably possible change in foreign exchange rates in future. The sensitivity analysis includes only outstanding foreign currency denominated monetary assets and liabilities and adjusts their translation at the period end for a 5% change in foreign currency rates.

Notes to the financial statements

4. Financial risk management (continued)

c. Market risk (continued)

In RON	31 December 2019		31 December 2018	
Currency	+5%	-5%	+5%	-5%
EUR	(124,254)	(124,254)	(16,219)	16,219
USD	380,796	380,796	4,459	(4,459)
GBP	(1,264)	(1,264)	(4,441)	4,441
CHF	1,699	1,699	5,856	(5,856)
SEK	817	817	197	(197)
CAD	1,088	1,088	(4,645)	4,645
	3,082	**3,082**	**(14,793)**	**14,793**

Interest Rate Risk

Interest rate risk includes interest rate price risk and interest rate cash flow risk. Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rates that apply to the financial instrument. Interest rate cash flow risk is the risk that the interest cost and the associated cash flows will fluctuate over time. Financial instruments of the Bank mainly carry both variable and fixed interest rates. As a result the Bank is exposed to both interest rate cash flow risk and interest rate price risk. Interest rates applicable to various financial assets and liabilities are disclosed in respective notes to these financial statements.

Interest rate risk management is realized by the Bank through the following measures:

- Insuring maximum possible correlation of the maturities of fixed interest rate bearing funds attracted with those of the fixed interest rate bearing assets;
- Limitation of the interest rate gap by originating interest rate bearing assets having similar interest rate structure (in terms of maturity, type of interest rates and repricing period) as that of the funds attracted;
- Establishment of interest rate level on Bank's assets and liabilities;
- Determination of interest rates characteristics (floating or fixed);
- Analysis of maturity differences in assets and liabilities, sensible to interest rate change and maintaining an adequate structure of assets and liabilities;
- Providing interest rate flexibility, periodical change of rates on bank's financial instruments;
- Evaluation of working assets structure and structure of paid liabilities, taking measures oriented to decrease the ratio of working assets to paid liabilities;
- Examination of information on interest rate risk by the committee ALCO and Bank's management with further adjustment of bank's policy on attraction and placement of means;
- Projection of perspective interest rate level on the basis of factors which may have influence on its increase or decrease, etc.

Notes to the financial statements

4. Financial risk management (continued)

c. Market risk (continued)

Interest rate sensitivity analysis

The sensitivity analysis below has been prepared based on the exposure to changes in interest rates for interest bearing assets and liabilities outstanding as of 31 December 2019 and 2018. For the purpose of the sensitivity analysis the Bank reviewed its portfolios of interest bearing assets and liabilities and extracted those which bear a floating interest rate. Instruments which bear a fixed interest rate have been excluded from the below analysis. The percentages of increase/decrease in interest rates as indicated below are used when reporting sensitivity to change in interest rates for internal reporting purposes of the Bank and represent the Bank's assessment of the reasonably possible change in interest rates.

The balances in the table below represent an effect of increase in interest rates on profit and loss account.

	31 December 2019		31 December 2018	
In RON	**+1%**	**-1%**	**+1%**	**-1%**
Loans and advances to customers sensitive to interest rates	30,925,013	- (30,925,013)	32,385,977	(32,385,977)
Customer deposits and savings accounts sensitive to interest rate	(25,130,275)	25,130,275	(31,514,537)	31,514,537
International Financial Institutions sensitive to interest rate	-	-	(106,800)	106,800
TOTAL	**5,906,925**	**(5,906,925)**	**779,586**	**(779,586)**

Price risk

The Bank's exposure to the market price risk arises from the financial instruments at fair value through profit and loss evaluated at market price and the table below represent an effect of increase market price on profit and loss account

	31 December 2019		31 December 2018	
In RON	**+1%**	**-1%**	**+1%**	**-1%**
Financial instruments at fair value sensitive to market price	82,342	(82,342)	11,873	(11,873)

Notes to the financial statements

4. Financial risk management (continued)

d. Capital management

The Bank is in compliance with the regulatory capital requirements as of 31 December 2019 and as of 31 December 2018. The regulatory capital allocation is detailed below.

Regulatory Capital Allocation

- Credit Risk: The regulatory capital allocation for the credit risk is calculated according to the Standardized Approach.
- Risk of settlement/delivery related to the banking book
- Market Risk: The regulatory capital allocation for the foreign currency risk is calculated according to the Standardized Approach.
- Operational Risk: the Bank calculates the regulatory capital requirement for operational risk according to Basic Indicator Approach (NBR Regulation and EBA)

e. Impact of IRCC rate

The Bank replaced ROBOR rates with IRCC rate starting with 2019 in case of loans to private individuals. IRCC rate is calculated as weighted average with interbank transactions amounts, defined according to OUG 19 / 2019). IRCC is determined at the end of each trimester as average of daily interest rates for the previous trimester and is applied in the following trimester.

Other risks management

Taxation risk

The Romanian tax legislation provides for detailed and complex rules and has suffered various changes in the recent years. Interpretation of the text and practical implementation procedures of tax legislation could vary and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Bank's treatment.

Furthermore, the recent adoption of IFRS 16 by the Romanian banks raised additional tax implications that are not yet fully clarified in the legislation and might generate tax risks, such as the fiscal treatment of interest expense and amortization of the right-of-use asset.

The Romanian Government has a number of agencies that are authorized to conduct audits of companies operating in Romania. These audits are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. It is likely that the Bank will continue to be subject to regular controls as new laws and regulations are issued.

Notes to the financial statements

5. Use of estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Bank assesses and measures credit risk on all lending exposures. The measurements of allowances are built upon IFRS 9 requirements and result in the appropriate and timely recognition of ECL in accordance with the applicable accounting framework. ECL measurement occurs at the individual lending exposure level and also at the collective portfolio level by grouping exposures based on identified shared credit risk characteristics.

Allowances assessment take into account relevant factors and expectations at the reporting date that may affect the collectability of remaining cash flows over the life of a group of lending exposures or a single lending exposure. The Bank considers information which goes beyond historical and current data, and takes into account reasonable and supportable forward-looking information, including macroeconomic factors, which are relevant to the exposures being evaluated in accordance with the applicable accounting framework.

Under the general approach the loss allowances are recognised based on either 12M ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. The simplified approach does not require the track of the changes in credit risk, but instead requires the recognition of a loss allowance based on lifetime ECLs right from origination.

The Bank uses general approach for credit portfolio and for banks and sovereign (low credit risk simplification) and the simplified approach for other assets than loans depending on the quality of the assets, they are classified in 3 stages. In the Stage 1 are included the performing loans, in Stage 2 the performing portfolio with significant increase in credit risk and in the Stage3 the defaulted financial assets. The Bank considers exposures to banks and sovereigns as having low credit risk (Stage 1) if the external ratings of these exposures at the reporting date are in the “investment grade” range.

Collective assessment

Stage 1 and 2 exposures are subject to collective assessment. For the purpose of determining a loss allowance on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. The loans portfolio was split in 5 groups, the exposures on sovereigns and those to banks and the rest of the exposures have each dedicated groups as follows:

- Retail (Individuals) – individual clients
- Professionals – Clients in the category of liberal professions and other companies without legal form
- Corporate – Legal entities that are not included the Professionals or Agri categories
- Agri – customers working in the agricultural or related sectors
- Real Estate – Customers who are financed for real estate purpose, defined under the Credit Policy as loans granted to real estate developers who, as a result of their funding, earn revenues either from the sale of buildings or from renting them.

5. Use of estimates and judgments *(continued)*

The Bank monitors that exposures within the groups remain homogeneous in terms of their response to credit risk drivers relevant and credit risk characteristics. The grouping of exposures are re-evaluated and exposures are re-segmented when significant change in the credit portfolio or changes in the Bank's risk profile occurs.

Stage 1 and 2 ECL diverge due to the maximum residual maturity considered: in case of exposures classified in Stage 1, 12 month horizon is considered as ceiling, while in case of transactions classified in Stage 2, lifetime horizon is considered. The key inputs into the measurement of ECLs include the following variables: probability of default (PD), LGD (loss given default) and exposure at default (EAD). PDs and LGDs are involved only in the computation of the Stage 1 and 2 ECLs.

Individual assessment of impairment losses on loans and advances to customers

The purpose of estimating expected credit losses is neither to estimate a worst-case scenario nor to estimate the best-case scenario. Instead, an estimate of expected credit losses reflect the possibility that a credit loss occurs and the possibility that no credit loss occurs even if the most likely outcome is no credit loss. It is required the estimate of expected credit losses to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes without the need for a large number of detailed simulations of scenarios. The expected credit losses reflect at least three outcomes. The scenarios and their probability occurrence for each of the scenarios are properly supported and documented and reflect the recovery stage and the recovery strategy at client level. The scenarios are updated whenever significant evolutions occur, in order to maintain their relevance. Refer also to the disclosures under Note 3d, 3f and 4a for more information regarding significant judgments related to impairment of financial assets.

Fair value of financial instruments at FVTPL

The Bank has a small portfolio of shares not kept for trading, which are accounted through profit and loss at fair value. These shares have been evaluated considering:

- The market price for listed companies (Elvila, Swift, Visa);
- Dividend discount model for those shares where the companies are not listed but they are providing dividends yearly (Transfond, Biroul de credit)

The main assumptions considering these evaluations were:

- going concern for all the companies evaluated that means cash flows that are being discounted or the dividends are, we assumed that the company will continue to be in business for the foreseeable future;
- dividend payout**,** where based on the past dividend payout of the company, its expected growth rates and its free cash flow, we could make an educated guess of what the dividend payout ratio for any given company will be.
- Macro-Economic Assumptions and Industry Assumptions where the expected growth rates have been assumed.

Notes to the financial statements

6. Net interest income

In RON	2019	2018
Interest income:		
Loans and advances to banks	11,001,870	10,178,320
Loans and advances to customers	304,512,359	249,530,053
Investment securities at amortized cost	21,366,260	11,857,877
Total interest income	**336,880,489**	**271,566,250**
Interest expense:		
Deposits from banks	(19,761)	(212,020)
Customers deposits and current accounts	(63,088,988)	(47,264,449)
Lease liability	(1,805,677)	-
Borrowings	(1,989,459)	(2,130,940)
Total interest expenses	**(66,903,884)**	**(49,607,409)**
Net interest income	**269,976,605**	**221,958,841**

Interest income on loans and advances to customers includes RON 10,583,154 (2018: RON 10,171,479) representing interest income on impaired financial assets.

7. Net fee and commission income

In RON	2019	2018
Commission from collections and payments from customers operations	19,543,822	15,805,226
Commission from ATM and card transactions	15,935,797	11,922,457
Commissions related to lending business	4,736,569	4,572,882
Other commissions	1,061,578	1,096,449
Total commission income	**41,277,766**	**33,397,014**
Commission expenses		
Expenses with commissions from interbank operations	(5,026,731)	(4,950,618)
Expenses related to payment operations	(8,657,678)	(6,479,951)
Other commissions	(713,506)	(575,552)
Total commission expenses	**(14,397,915)**	**(12,006,121)**
Net fee commission income	**26,879,851**	**21,390,893**

8. Other operating income

In RON	2019	2018
Dividend income	557,638	674,588
Other income	2,003,497	2,515,470
Total other operating income	**2,561,136**	**3,190,058**

9. Operating expenses

In RON	2019	2018
Personnel expenses *(i)*	(104,496,626)	(81,844,416)
Professional fees, rent and insurance	(10,506,885)	(16,170,794)
Repairs, maintenance and utilities	(8,607,775)	(8,093,840)
Other taxes *(ii)*	(20,640,908)	(10,005,559)
Amortization and depreciation expenses *(iii)*	(15,214,642)	(3,110,078)
Other expenses with services rendered	(5,054,793)	(4,306,836)
Other expenses with third parties	(17,625,758)	(15,907,430)
Other provisions *(Note 20)*	(4,436,035)	(2,796,612)
Other expenses *(iv)*	(667,326)	(1,498,151)
Total operating expenses	**(187,250,748)**	**(143,733,715)**

(i) The Bank had 865 employees at 31 December 2019 and 804 employees at 31 December 2018. The average number of employees was 834 and 750 during the year end 31 December 2019, 2018 respectively.

The split of personnel expenses per management and operating personnel is as follows:

	31 December 2019		31 December 2018	
	No. of employees	Salary costs	No. of employees	Salary costs
In RON				
Operating personnel	781	74,919,328	720	63,247,883
Management personnel	84	29,577,298	84	18,596,533
	865	**104,496,626**	**804**	**81,844,416**

(ii) In 2019, the Bank recognized in this line the Tax on Banking Assets introduced by the Government Ordinance no. 114/2018 in amount of RON 6,743,442.

(iii) In 2019, the Bank recognized in this line the amortization of the Right of Use Asset amounting to RON 11,512,618.

Notes to the financial statements

9. Operating expenses *(continued)*

(iv) Expenses with KPMG Audit SRL representing audit services provided in 2019 are in amount of RON 402 thousand. The non-audit services provided by KPMG Audit SRL (namely, review of profit as of 30 June 2019, auditing loan portfolio FIN04 as 30 June 2019) amount to RON 200 thousand. The audit expenses for 2018 were in amount of RON 443 thousand.

10. Impairment losses on financial instruments

In RON	2019	2018
Net charge/(release) of expected losses for nostro accounts	2,668	(32,780)
Net charge of expected losses for investment securities	(42,880)	(8,885)
Net charge of expected losses for loans and advances to customers	(17,448,729)	(16,352,548)
Revenues from loans previously written-off	7,764,467	8,671,799
Total impairment loss on financial instruments	**(9,724,474)**	**(7,722,414)**

The movement in the expected loss accounts is presented below:

In RON	Expected losses for nostro accounts	Expected losses for investment securities	Expected losses for loans and advances to customers	Total
1 January 2018	-	-	42,673,208	42,673,208
Net impairment charge	32,780	8,885	16,352,548	16,394,213
Impairment allowance of loans written-off	-	-	(9,464,039)	(9,464,039)
E/R differences	-	-	887,993	887,993
Transition reserve	52,225	62,317	2,356,489	2,471,031
Unwinding	-	-	84,293	84,293
31 December 2018	**85,005**	**71,202**	**52,890,492**	**53,046,699**
Net impairment charge	(2,668)	42,880	17,448,729	17,488,941
Impairment allowance of loans written-off			(9,017,571)	(9,017,571)
E/R differences	-	-	239,481	239,482
Transition reserve			-	-
Unwinding	-	-	210,174	210,174
31 December 2019	**82,337**	**114,082**	**61,771,305**	**61,967,724**

Notes to the financial statements

11. Income tax expenses

Income tax comprises

In RON	2019	2018
Current tax expense	17,961,804	15,619,738
Deferred tax (income)/expense	(724,922)	(556,151)
Total income tax expense	**17,236,883**	**15,063,587**

In RON	2019	2018
Gross profit	132,505,716	110,823,068
Taxation at statutory rate of 16%	**21,200,915**	**17,731,691**
Tax adjustments:		
Items similar to expenses	(2,001,093)	(377,038)
Items similar to revenues	2,419	
Non-deductible expenses	5,222,186	2,543,222
Non-taxable revenues	(1,073,916)	(908,218)
Fiscal deduction	(1,529,486)	(1,364,152)
Income tax	**21,821,025**	**17,625,505**
Fiscal credit	(1,140,429)	(440,638)
Sponsorship deducted from profit tax	(2,718,791)	(1,565,129)
Current income tax expense	**17,961,805**	**15,619,738**

The main sources of tax recognition of temporary differences are presented below:

In RON	2019	2018
Taxable/(deductible) temporary differences:		
Operational provisions	(9,496,848)	(4,942,032)
Tangible and intangible assets	(392,765)	(416,819)
Total temporary differences	**(9,889,613)**	**(5,358,851)**
Deferred tax assets at 16%	**(1,582,338)**	**(857,416)**

Notes to the financial statements

11. Income tax expenses *(continued)*

The change in deferred tax is presented in the table below:

In RON	2018	charge 2019 or reversal in reserves	2019
Tangible and intangibles assets	(66,691)	3,849	(62,842)
Operational provisions	(790,725)	(728,771)	(1,519,496)
Total	**(857,416)**	**(724,922)**	**(1,582,338)**

12. Cash and current accounts with banks

In RON	31 December 2019	31 December 2018
Cash on hand	90,559,183	74,799,730
Nostro accounts with banks	281,021,413	272,319,939
Term deposits with banks	373,244,366	43,691,107
Total	**744,824,961**	**390,810,776**
Investments with remaining maturity of up to 3 months	50,863,094	4,819,769
Total cash and cash equivalents (Cash-flow)	**795,688,056**	**395,630,545**

At December 31, 2019 and 2018 term deposits with banks included deposits with banks in Romania in RON, EUR and USD with remaining maturities of up to 1 month.

At 31 December 2019 and 2018, the interest rates on term deposits with banks were as follows:

Initial currency	31 December 2019	31 December 2018
RON	2.40% - 3.12%	-
USD	1.00% - 1.55%	1.8%-2%
EUR	-	-

Notes to the financial statements

13. Loans and advances to National Bank of Romania

Current accounts with the National Bank of Romania in amount of RON 652,781 thousands (31 December 2018: 1,154,189 thousands) include balances in RON, USD and EUR and are used for domestic payments and for maintaining minimum mandatory reserves.

The National Bank of Romania requires commercial banks to maintain an amount calculated as a percentage of their funding other than local inter-bank originated for achieving the monetary policy targets. As of 31 December 2019 the required rate for RON and foreign currency compulsory reserves was 8% while in 2018 it was the same. As of 31 December 2019 and 2018, the interest rates on current accounts balances with the National Bank of Romania were as follows:

Initial currency	31 December 2019	31 December 2018
RON	0.20%	0.2%
USD	0.10%	0.02%
EUR	0.01%	0.12%

14. Loans and advances to customers

In RON	31 December 2019	31 December 2018
Loans and advances to customers	4,075,161,635	3,304,410,011
Allowance for expected credit losses (Note 10)	(61,771,305)	(52,890,492)
Total	**4,013,390,330**	**3,251,519,519**

At 31 December 2019 and 2018, loan interest rates were as follows:

Initial currency	31 December 2019	31 December 2018
RON	0%-21.5%	0%-21.96%
EUR	2%-13.9%	0%-13.9%
USD	5%-7.7%	0%-14.5%

Notes to the financial statements

15. Other assets

In RON	31 December 2019	31 December 2018
Prepayments	3,801,322	2,732,208
Cash in transit (from ATM network supplier)	16,270,690	14,541,180
Warranty deposits paid and sundry debtors	11,687,441	11,350,741
Suspense accounts	28,385,698	33,871,126
Total	**60,145,151**	**62,495,255**

16. Investments

In RON	31 December 2019	31 December 2018
Financial assets amortized cost		
Government debt securities	980,339,157	582,838,633
Allowance for expected credit losses	(114,081)	(71,202)
Financial assets fair value through P&L		
Equity securities	11,218,685	1,494,589
Total	**991,443,761**	**584,262,021**

At 31 December, 2019, the investments include bonds denominated in RON and EUR and bearing coupon with interest rates between (2.25% - 7.25%) p.a. for RON and (1.25% - 2.375%) p.a. for EUR.

At 31 December 2019, part of the portfolio of government bonds in the amount of RON 33,133,759 (31 December 2018: RON 21,714,250) is pledged in favor of the National Bank of Romania.

Details of Equity securities are as follows:

				Carrying amount (RON)	
Company name	**Activity**	**Place of incorporation**	**Ownership interest**	**31 December 2019**	**31 December 2018**
Casa de Compensare București	Clearing and settlement house	Romania		-	12,962
Transfond SA	Money transfers	Romania	2,56%	2,931,559	280,940
Biroul de Credit	Bank information services	Romania	0,18%	52,895	13,384
SWIFT	Money transfers	Belgium	17 shares	437,927	437,549
Elvila S.A.	Furniture, trade and manufacture	Romania	1,84%	447,353	749,754
Visa			650 pref shares	7,348,950	-
Total equity securities fair value				**11,218,685**	**1,494,589**

Notes to the financial statements

15. Other assets *(continued)*

During 2019 and 2018 the Bank has recognized the right to receive dividends from Transfond SA in the amount of RON 520,697 (2018: RON 624,403), RON 27,943 from VISA (2018: RON 31,419) and from Biroul de Credit in the amount of 8,998 RON (2018: RON 11,040).

17. Tangible and intangible fixed assets

a. Property plant and equipment

In RON	Land and buildings	Office equipment	Vehicles	Fix assets in progress	Right of use asset	Total
COST						
At 31 December 2017	**7,592,393**	**11,580,236**	**6,489,587**	**750,738**	**-**	**26,412,954**
Additions	332,888	771,546	646,066	2,464,188	-	4,214,688
Disposals	(1,442,271)	(1,113,902)	(365,868)	(1,750,501)	-	(4,672,542)
At 31 December 2018	**6,483,010**	**11,237,880**	**6,769,785**	**1,464,425**	**-**	**25,955,100**
Initial recognition of the right of use asset	-	-	-	-	53,798,524	53,798,524
Additions	1,615,965	1,763,876	7,949,342	2,928,927	9,529,104	23,787,214
Disposals	(287,477)	(417,359)	(136,593)	(4,179,182)	(308,872)	(5,329,483)
At 31 December 2019	**7,811,498**	**12,584,395**	**7,432,534**	**214,172**	**63,018,756**	**91,061,355**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 31 December 2017	**(5,910,704)**	**(8,745,349)**	**(3,758,792)**	**-**	**-**	**(18,414,845)**
Charge for the year	(387,162)	(813,687)	(1,146,504)	-	-	(2,347,353)
Disposals	1,442,271	991,794	365,868	-	-	2,799,933
At 31 December 2018	**(4,855,594)**	**(8,567,242)**	**(4,539,427)**	**-**	**-**	**(17,962,263)**
Charge for the year	(256,865)	(967,474)	(1,090,215)	-	(11,441,547)	(13,756,101)
Disposals	287,477	365,532	124,649	-	-	777,658
At 31 December 2019	**(4,824,982)**	**(9,169,185)**	**(5,504,993)**	**-**	**(11,441,547)**	**(30,940,707)**
NET BOOK VALUE – TANGIBLE ASSETS						
At 31 December 2018	**1,627,416**	**2,670,820**	**2,230,358**	**1,464,425**	**-**	**7,993,019**
At 31 December 2019	**2,986,515**	**3,415,211**	**1,927,541**	**214,171**	**51,577,209**	**60,120,648**

Notes to the financial statements

17. Tangible and intangible fixed assets *(continued)*

b. Intangible assets

In RON	Intangible Assets	Intangible Assets in progress	Total
COST			
At 31 December 2017	**17,450,436**	**958,888**	**18,409,324**
Additions	2,691,588	2,128,913	3,062,274
Disposals	-	(2,691,588)	(2,691,588)
At 31 December 2018	**20,142,024**	**396,213**	**20,538,236**
Additions	1,190,938	1,871,336	4,820,501
Disposals	-	(1,190,938)	(1,190,938)
At 31 December 2019	**21,332,962**	**1,076,611**	**22,409,573**
ACCUMULATED DEPRECIATION			
At 31 December 2017	**(16,560,677)**	**-**	**(16,560,677)**
Charge for the year	(761,822)	-	(761,822)
Disposals	-	-	-
At 31 December 2018	**(17,322,499)**	**-**	**(17,322,499)**
Charge for the year	(1,384,803)	-	(1,384,803)
Disposals	-	-	-
At 31 December 2019	**(18,707,302)**	**-**	**(18,707,302)**
NET BOOK VALUE			
At 31 December 2018	**2,819,525**	**396,213**	**3,215,738**
At 31 December 2019	**2,625,660**	**1,076,611**	**3,702,270**

18. Deposits from customers

	31-Dec-19		
In RON	RON	Foreign currency	Total
On demand	1,557,865,588	364,748,731	1,942,614,319
Term deposits	2,597,548,784	1,128,052,622	3,725,601,406
Total	**4,175,414,372**	**1,492,801,353**	**5,668,215,725**

	31-Dec-18		
In RON	RON	Foreign currency	Total
On demand	1,225,032,178	279,981,407	1,505,013,585
Term deposits	2,280,905,122	973,476,700	3,254,381,822
Total	**3,505,937,300**	**1,253,458,107**	**4,759,395,407**

Notes to the financial statements

18. Deposits from customers *(continued)*

As of 31 December 2019 and 2018, the interest rates on term deposits were as follows:

Initial currency	31 December 2019	31 December 2018
RON	0%-5.5%	0%-6%
EUR	0%-2.5%	0%-2.5%
USD	0%-1.9%	0%-1.5%

As of 31 December 2019, the interest payable on current accounts balances were between 0% - 2.75% p.a. on current accounts in RON, 0%-0.1% p.a. on current accounts in EUR and 0%p.a. on current accounts in USD.

The Bank had significant balances held by the entities – members of Broadhurst Group NCH, the ultimate shareholder, on current accounts and term deposits amounting to RON 292,251,966 as of 31 December 2019 and RON 266,897,439 as of 31 December 2018. At 31 December 2018 the amount exceeded 10% of the Bank's equity. The average interest rate at deposits attracted from related parties is of 2.32% RON equivalent.

19. Loans from financial institutions

The Bank has signed one facility agreement with European Investment Fund. The disbursed amount in EUR at 31.12.2019 was 4,375,000 EUR having an interest rate of 1.48% (1.44% as of 31 December 2018).

The Bank signed a facility agreement with BERD in 10 January 2018 with maturity on 10 January 2022. The disbursed amount as 31 December 2019 was EUR 4,179,183, having an interest rate of 4.51%.

20. Other provisions

In RON	Provisions for credit commitments and financial guarantees given	Provision for litigation	Other provisions	Total
As 31 Dec 2018	714,059	174,402	3,919,841	**4,808,302**
Net charge of provision	570,415	1,570,648	2,334,276	**4,475,338**
E/R differences	(7,368)	-	933	**(6,436)**
As 31 Dec 2019	**1,277,105**	**1,745,050**	**6,255,050**	**9,277,204**

Notes to the financial statements

21. Other liabilities

In RON	31 December 2019	31 December 2018
Social security, payroll and other taxes payable *(i)*	10,302,433	3,577,139
Leasing Liability *(ii)*	54,341,129	-
Other creditors	16,536,856	11,651,694
Total	**81,180,418**	**15,228,833**

(i) In 2019, the Bank recognized in this line the Tax on Banking Assets introduced by the Government Ordinance no. 114/2018 in amount of RON 6,743,422.

(ii) Starting with 1 January 2019 the Bank applied IFRS 16 which requires a single lease accounting model, no lease classification test, all lease on-balance sheet with recognizing a right of use asset for each lease contract and a lease liability for each lease contract. All lease contracts are treated as a purchase of an asset on a financed basis. The total lease liability of the bank lease contracts at the end of 2019 amounted RON 54,341,129.

22. Share capital

In RON	31 December 2019	31 December 2018
Share capital at nominal value	462,616,000	462,616,000
Effect of hyperinflation adjustments up to 31 December 2003	43,549,200	43,549,200
Total share capital	**506,165,200**	**506,165,200**

22. Share capital *(continued)*

The shareholders structure as of 31 December 2019 and 2018 is as follows:

	31 December 2019			31 December 2018		
Shareholder	**No. of shares**	**Nominal value**	**%**	**No. of shares**	**Nominal value**	**%**
Broadhurst Investments Ltd.	14,021	22,000	66.67%	3,084,446,311	0.1	66.67%
Romarta SA	5,796	22,000	27.56%	1,274,798,922	0.1	27.56%
Metex Big SA	-	-	0.00%	-	0.1	0.00%
Andrei Siminel Cristian	1,205	22,000	5.73%	264,940,396	0.1	5.73%
Other	6	22,000	0.04%	1,974,371	0.1	0.04%
TOTAL	**21,028**		**100%**	**4,626,160,000**		**100%**

During the year ended 31 December 2019, the nominal value of the share increase from 0.1 RON/share to 22,000 RON/share and was done a consolidation of the capital through rounding to an integer number of shares for each shareholder. The value of the capital remained the same after this consolidation.

23. Other reserves

Other reserves consist of legal reserves and general risk reserve established in accordance with Romanian legislation.

	31 December 2019	**31 December 2018**
Legal reserve	21,034,221	14,408,937
General reserve for credit risk	418,133	418,133
General risk reserve	241,330	241,330
Other reserve	91,045,564	167,774
Total	**112,079,787**	**15,236,174**

The legal reserve is established in accordance with Romanian law through allocation of 5% from the gross profit until the reserve reaches 20% from share capital. This reserve is allocated from gross profit and is deductible for income tax purposes. In 2019, the Bank has allocated to the legal reserve the amount of 6,625,286 RON representing 5% of the profit recorded in 2019. The remaining amount of 2019 profit amounting to RON 90,218,237 was allocated to retain earnings according to the decision of the shareholders from April 2019. In 2018, the Bank has allocated to the legal reserve an amount of RON 5,541,153 and remaining amount of 55,975,471 RON was distributed as dividends. The general risk reserve is established in accordance with Romanian law and is equal to a minimum 1% of risk bearing assets. This reserve cannot be distributed to the shareholders. Any release of this reserve is transferred to the profit and loss account.

Notes to the financial statements

24. Commitments and contingencies

Letters of guarantee

The aggregate amounts of outstanding letters of guarantee at 31 December 2019 and 31 December 2018 are:

	31 December 2019	31 December 2018
Letters of guarantee in RON		
secured by mortgage	16,720,739	1,015,298
secured by cash	18,591,523	11,775,989
secured by other instruments	6,271,401	18,900,214
secured by pledge	93,655	8,291
Total	41,677,317	31,699,792
Letters of guarantee in foreign currency		
secured by cash	3,509,549	2,341,842
secured by mortgage	3,164,963	1,281,269
secured by other instruments	2,152,620	1,795,632
Total	8,827,133	5,418,743
Total letters of guarantee	**50,504,450**	**37,118,534**

In RON	**31 December 2019**	**31 December 2018**
Undrawn loan commitments	1,155,146,956	989,108,827
Total Undrawn loan commitments	**1,155,146,956**	**989,108,827**

On 31 December 2019 the Bank has a funding commitment from Broadhurst Investments Limited amounting to RON 244.41 mil (USD 60,000,000) with a due date on October 15, 2022.

This funding commitment is unconditional, irrevocable and can be used at any time to protect the Bank Liquidity Management related to contingencies.

For both letters of guarantee and letters of credit issued in RON, the following arrangement was in place: the Bank granted credit line facilities to its customers, mainly secured by mortgage and cash collateral, and subsequently it issued such letters of guarantee and letters of credit within the limits initially approved for the credit lines.

Notes to the financial statements

25. Fair value of financial instruments

Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at transaction date where available, fair value is based on quoted market prices. However, no readily available market prices exist for a part of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing techniques as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair value estimates cannot be realized in a current sale of the financial instrument.

(a) Cash and balances with Central Banks

The carrying values of cash and balances with the central bank are generally deemed to approximate their fair value.

(b) Due from banks

Amounts due from banks include balances on Nostro accounts and short term deposits with maturity up to one month. The carrying amount approximates the fair value.

(c) Loans and advances to customers

The fair value of variable-yield loans that regularly change their prices without any significant change in credit risk, generally approximates the value reported. On 31 December 2019, the loans at fixed interest rates amount to RON 43,404,406 of the total portfolio and their fair value is RON 67,143,071. On 31 December 2018, loans at fixed interest rates amount to RON 60,738,599 of the total portfolio and their fair value is RON 77,925,935.

(d) Amounts due to banks, borrowings and customers deposits

The amounts due to banks include short term deposits with maturity of up to one month. The estimated fair value of amounts due to banks approximates the amounts reported. The fair value of deposits payable on demand equals the carrying value of the amounts payable on demand as at the balance sheet date. The fair value of term deposits at variable interest rates approximates their reported values as at the balance sheet date.

At 31 December 2019 the fixed interest rate deposits amounted to RON 3,603,796,435 RON and their fair value amounted to RON 3,725,244,490.

At 31 December 2018 fixed interest rate deposits amounted to RON 3,234,410,681 RON and their fair value amounted to RON 3,143,361,755.

Upon the classification of the fair value of the financial instruments, the fair value hierarchy is used to reflect the significance of the data input used to make the respective valuations.

Notes to the financial statements

25. Fair value of financial instruments (continued)

The fair value hierarchy comprises the following three levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- inputs, other than quoted prices, included within level 1, that are observable for the assets or liabilities, either directly (that is as prices), or indirectly (that is derived from prices) (level 2).
- inputs for assets or liabilities that are not based on observable market data (unobservable inputs) (level 3).

The classification of the fair value of the financial assets of the Bank on the three levels is presented as follows:

	31 December 2019			
In RON	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	-	90,559,183	-	90,559,183
Balance due from the National Bank of Romania	652,781,859	-	-	652,781,859
Deposits and accounts with banks	654,265,779	-	-	654,265,779
Loans and advances to customers	-	-	4,037,128,994	4,037,128,994
State debt securities	989,376,045	-	-	989,376,045
Equity securities	8,234,230	-	2,984,455	11,218,685
Total assets	**2,304,657,913**	**90,559,183**	**4,040,113,449**	**6,435,330,545**
Customer deposits and saving accounts	-	-	5,546,767,670	5,546,767,670
Loans from financial institutions	40,846,726	-	-	40,846,726
Amounts in transit related to corresponding banks	21,862,218	-	-	21,862,218
Total liabilities	**62,708,944**	**-**	**179,575**	**5,609,476,614**

We assumed that the unquoted securities are kept at fair value through profit and loss and those valuated using quoted prices (Elvila, Swift and Visa) we classified in level 1 and those valuated with Dividend model we classified in level 3 (Transfond and Biroul de credit).

Loans and deposits with fix rates have been discounted at market prices and it was calculated their fair values.

Notes to the financial statements

25. Fair value of financial instruments (continued)

	31 December 2018			
In RON	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	-	74,799,730	-	74,799,730
Balance due from the National Bank of Romania	1,154,189,161	-	-	1,154,189,161
Deposits and accounts with banks	316,011,046	-	-	316,011,046
Loans and advances to customers	-	-	3,292,445,520	3,292,445,520
State debt securities	582,767,431	-	-	582,767,431
Unquoted equity securities	-	-	1,989,660	1,989,660
Total assets	**1,470,200,207**	**657,567,161**	**3,294,435,180**	**5,422,202,548**
Customer deposits and saving accounts	-	-	4,577,281,591	4,577,281,591
Loans from financial institutions	57,398,480	-	-	57,398,480
Amounts in transit related to corresponding banks	19,385,841	-	-	19,385,841
Total liabilities	**76,784,321**	**-**	**4,577,281,591**	**4,654,065,912**

26. Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

The Bank has transactions with entities – members of Broadhurst Group NCH, the ultimate shareholder, as well as with key members of the management, which are summarized below:

	Group entities	**Bank Management**	**Total**
31 December 2019			
Loans or advances to customers	22,790,069	1,135,029	**23,925,098**
TOTAL ASSETS	22,790,069	1,135,029	**23,925,098**
Customer deposits and savings accounts	284,037,539	10,795,023	**294,832,562**
TOTAL LIABILITIES	284,037,539	10,795,523	**294,832,562**
Income from interest & commission	**1,575,243**	**50,608**	**1,625,851**
Expenses with interest & commissions	**1,881,776**	**98,699**	**1,980,465**
Commitments	**260,142,242**	**254,120**	**260,396,362**

Notes to the financial statements

26. Related party transactions *(continued)*

In RON	Group entities	Bank Management	Total
31 December 2018			
Loans or advances to customers	19,555,799	745,125	**20,300,924**
TOTAL ASSETS	19,555,799	745,125	**20,300,924**
Customer deposits and savings accounts	246,540,055	5,984,491	**252,524,546**
TOTAL LIABILITIES	**246,540,055**	**5,984,491**	**252,524,546**
Income from interest & commission	**2,413,338**	**43,844**	**2,457,182**
Expenses with interest & commissions	**2,279,034**	**130,966**	**2,410,000**
Commitments			

In Group entities there are: companies' shareholders of the bank, companies owned by the shareholders and companies where the shareholders owns the control.

27. Subsequent events

A. CoVid 19

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic, and the Romanian President declared a state of emergency on 16 March 2020. Responding to the potentially serious threat the COVID – 19 presents to public health, the Romanian government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors and the 'lock-down' of certain industries, pending further developments. In particular, airlines suspended international transport of people to and from certain countries affected by the COVID-19 outbreaks (currently Spain and Italy), schools, universities, restaurants, cinemas, theaters and museums and sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. In addition, major manufacturers in the automotive industry decided to shut-down their operations in both Romania and other European countries. Some businesses in Romania have also instructed employees to remain at home and have curtailed or temporarily suspended business operations.

The wider economic impacts of these events include:

- Disruption to business operations and economic activity in Romania, with a cascading impact on both upstream and downstream supply chains;

27. Subsequent events *(continued)*

- Significant disruption to businesses in certain sectors, both within Romania and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

Starting 21 March 2020 a number of emergency ordinances issued by the Romanian government on certain economic and tax-budgetary measures to counter the negative effects of the outbreak of COVID -19 on the companies entered into force.

The entity operates in the banking sector that has not been significantly affected by the outbreak of COVID – 19 and over the last few weeks the Bank realized relatively stable revenue streams and its operations were uninterrupted. Based on the publicly available information at the date these financial statements were authorized for issue, management considered a number of severe but plausible scenarios with respect to the potential development of the outbreak and its expected impact on the Bank and the economic environment in which the Bank operates, including the measures already taken by the Romanian government and governments in other countries.

As of 31 December 2019, the Bank's liquidity position was solid with quick liquidity ratio at 41% and LCR 301.49%. As of 20 March 2020, quick liquidity ratio remained comfortable at 42.35%, thus more than 40% out of Liabilities are in liquid assets, placements with central banks, government securities and correspondent banks.

Management considered the following operating risks that may adversely affect the Bank:

- Unavailability of staff for extended period of time;
- Declaration by the state authorities of a payment holiday;
- Recession in the Romanian and global economy with direct impact on the Bank's profitability.

The Bank performed a stress test on the credit quality of the loan portfolio, on a horizon of two years, using the following assumptions:

- Decrease of GDP additional to the European Banking Authority ("EBA") stress test scenarios;
- Decrease of the collateral values in addition to the EBA scenarios stages (namely by 20% compared to the current valuation);
- Additional migration between IFRS9 stages.

27. Subsequent events *(continued)*

The negative effect of the stress test on ECL performed can be absorbed by the Bank's own funds, as the solvency rate continues to remain above 13% both in 2020 and in 2021.

In order to mitigate the risks resulting from potential adverse scenarios, Management started to implement the measures, which notably include:

1. Pandemic and epidemic measures;
2. Defining the roles and responsibilities in the crisis management process at the Bank level;
3. Defining communication ways for condition crisis;
4. Defining Emergency condition;
5. Defining working scenarios for case of Emergency situation;
6. Defining the rules for suspending the activity of one branch or of Head Office
7. Assuring the infrastructure for working from home and remote communication for both the Central and the Branches;
    a. Work from home was tested for 100% of the Head Office(1 days);
    b. Currently 70% of the Head Office works from home and 50% of each Branch;
8. Making available to clients free of charge the electronic signature of documents in relation with the Bank;
9. Allocation of cars or transport clearance to avoid public transport (metro, bus);
10. Back-up personnel for critical staff and branches;

Regarding a potential Payment holiday, the Bank is monitoring intraday liquidity and took measures related to lending activity:
- for existing clients: Approval of principles and criteria for granting grace periods for the affected clients, including simplifying the approval flows and documentation for deferred payment applications;
- for new clients: Analysis of the industries and areas to which the Bank will concentrate in the future.

Based on currently publicly available information, the Bank's current KPI's and in view of the actions initiated by management, we do not anticipate a direct immediate and significant adverse impact of the Covid – 19 outbreak on the Bank, its operations, financial position and operating results. We cannot however preclude the possibility that extended lock down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment we operate in will not have an adverse effect on the Bank, and its financial position and operating results, in the medium and longer term. We continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

B. Bonds issuance

In March 2020, the Bank issued subordinated bonds amounting to EUR 4.2 million, over a period of 10 years, bearing an interest rate of 4,5 – 5% for capital adequacy purposes and with the aim to provide additional financing for the annual business growth.

LIBRA INTERNET BANK

ADMINISTRATORS' REPORT

LIBRA INTERNET BANK S.A.
31.12.2019

The accurate review of the evolution of the credit institution during the financial year and of its situation upon its completion:

LIBRA INTERNET BANK was established on November 25, 1996 and operates under license no. 000,025 Series B of 01/24/1997 issued by the National Bank of Romania

Legally, LIBRA INTERNET BANK is a fully private-owned stock company, established in accordance with Law no. 31/1991 and Banking law 99/2006 being registered with the Trade Register under no. J40/334/1996, with fiscal code R 8119644, and it is a member of the Romanian Banking Association.
The bank's headquarters is located at: 6-6A Calea Vitan, Bucharest, 3rd District.

The Administrators report is prepared in accordance with NBR Order no 27/2010 articles `11,12,13,13' and 14 of the accounting regulations in accordance with the International Financial Reporting Standards applicable to credit institutions.

LIBRA INTERNET BANK currently operates its business through 54 branches.

As of 31.12.2019 - **the Board of Directors** had the following structure:

- Radu Gratian Ghetea - president
- Cristina MAHIKA-VOICONI - vice-president
- Eugen GOGA - vice-president
- Ovidiu PETRE Melinte - member
- Siminel ANDREI - member
- Emilian BITULEANU - member
- Mihaela Biciu - member
- Mihaela Sirbu - member
- Ionel Umbres - member

The administrators' professional training is as follows:

- **Radu Grațian GHEȚEA** – Economist - The Academy of Economic Studies, Professional Doctorate in Economic Studies, Faculty of Mathematics - University of Bucharest, President of LIBRA INTERNET BANK
- **Ovidiu PETRE Melinte** - Engineer – The Polytechnic Institute - Major: Precision mechanics, Master of Business Administration;
- **Cristina MAHIKA-VOICONI** – Economist – The Academy of Economic Studies, Master of Business Administration, Financial auditor (intern), Vice-president of LIBRA INTERNET BANK;
- **Eugen GOGA** – Economist – The Academy of Economic Studies, Major: International Economic Relations, Master of Business Administration;
- **Siminel ANDREI** - Engineer – The Polytechnic Institute - Major: Transportation, Master of Business Administration;
- **Emilian BITULEANU** - Engineer- The Polytechnic Institute - Major: Electronics and telecommunications, Postgraduate studies – enterprise management and financial analysis, Banking Management studies at the Academy of Economic Studies, Master of Business Administration.
- **Mihaela Biciu** - Economist – The Academy of Economic Studies, Faculty of Finance, Banking and Accounting, Master of Business Administration.
- **Mihaela Sirbu** - Economist – The Academy of Economic Studies, Faculty of Economic Studies in Foreign Languages – English Department, Master of Business Administration – Case Western Reserve University, Weatherhead School of Management.
- **Ionel Umbreș -** Engineer- The Polytechnic Institute - Major: Electronics and telecommunications – Telecommunication network and traffic engineering Department, Executive Master of Business Administration - University of Sheffield, UK.

The bank's executive management is done in accordance with the bank's articles of association and with the legislation in force, by the **Executive Management Committee -** consisting of the following persons at the end of 2019:

- Emilian BITULEANU - General Director
- Cristina MAHIKA-VOICONI - Director
- Eugen GOGA - Director
- Ionut Umbres - Director

A. Presentation of the asset and liability items from the Statement of financial position and income and expense items from the Statement of profit or loss and other comprehensive income.

The Statement of Financial Position and the Statement of Profit or Loss and other comprehensive income as of 31.12.2019 were drafted based on the summary trial balance sheet at the bank level:

Statement of financial position (all amounts are presented in RON) as of 31 December 2019, as follows:

	31 December 2019
Assets	
Cash and cash equivalents	90,559,183
Loans and advances to National Bank of Romania	652,781,859
Loans and advances to banks	654,265,779
Loans and advances to customers	4,013,390,330
Investments securities available for sale	-
Investments securities at fair value through profit or loss	11,218,685
Available for sale financial assets	-
Investments securities at amortized cost	980,225,075
Property and equipment	60,120,648
Intangible assets	3,702,270
Deferred tax asset	1,582,338
Other assets	63,339,372
Total assets	**6,531,185,539**
Liabilities and Equity	
Deposits from customers	5,668,215,725
Loans from financial institutions	40,846,726
Provisions	9,277,204
Current tax liability	182,513
Other liabilities	84,374,639
Total liabilities	**5,802,896,807**
Share capital	506,165,200
Reserves	112,079,786
Retained earnings	110,043,746
Total equity	**728,228,732**
Total liabilities and equity	**6,531,185,539**

Statement of profit or loss and other comprehensive income (all amounts are presented in **RON**) as of 31 December 2019, as follows:

	2019
Interest income	336,880,489
Interest expenses	(66,903,883)
Net interest income	**269,976,605**
Fee and commission income	41,277,766
Fee and commission expense	(14,397,915)
Net fee and commission income	**26,879,851**
Net income from financial instruments at FVTPL	10,439,855
Net gain from foreign exchange transactions and revaluation	19,266,091
Other operating income	2,561,136
Total operating income	**329,123,538**
Personnel expenses	(104,496,626)
Amortization and depreciation	(15,214,642)
Other operating expenses	(67,182,079)
Total operating expenses	**(186,893,347)**
Operating profit	**142,230,191**
Impairment losses on financial instruments	(9,724,474)
Profit before tax	**132,505,717**
Income tax expenses	(17,236,883)
Profit for the period	**115,268,834**
Other comprehensive income, net of income tax	
Items that may be reclassified subsequently to profit or loss:	
Movement in fair value reserve available for sale financial assets	
Available for sale financial assets-net change in fair value	-
Total comprehensive income, after tax	**115,268,834**

B. Corporate Governance

B1. The organizational structure

The bank is organized in divisions and departments and at territory level, the Bank is organized by branches. Also, the Bank's structure includes the Compliance Officer, subordinated to the Bank's Board of Directors, the Data Protection Officer, subordinated to the Chief Executive Officer and the Information Security Officer, directly subordinated to the coordinator of the bank's IT area. The divisions represent the first organizational level of this structure and are directly subordinated to the Bank's directors. Divisions may include one or more departments in their structure. The responsible of each Division has the Director Division function, and those who lead departments have the Head of Department function. The units are headed by directors appointed by decision of the competent body of the bank. Branch directors are directly subordinated to the Coordinating Bank Director.

B2. The governing body of the Bank

The bank is organized in a unitary system, the supervisory function on the bodies with a leading position being exercised by the Board of Directors. The governing body of the Bank consists of the Board of Directors (the governing body in its supervisory function) and the Executive Management Committee (Senior management). In order to fulfill their obligations, as well as to develop and maintain best practices, both the governing body in its supervisory function, and senior management may set up committees, subcommittees, etc.

B.3. Risk management

The risk management function is a central component of Libra's Internet Bank's internal control system. This function is provided by the Risk Management Division through the Risk Management Department, the Credit Risk Management Department and the Reporting Department. In addition, the Control and Antifraud Division helps strengthen the internal control system. The Risk Management Division and the Control and Antifraud Division are independent of the Bank's operational entities, have sufficient authority, resources, and have direct access to the Bank's governing body. In performing its risk management function, the Risk Management Division carries out its activity in accordance with the legislative provisions, aiming at:

a) Maintaining and developing a culture of risks. The Risk Management Division promotes a culture of risk at the institution level through a number of complementary activities such as:
I. Continuous and Periodic Risk Monitoring, according to Risk Profile and Strategy;
II. Informing employees about good practices in risk management.

b) Maintain and develop a risk management framework. The Risk Management Division has a central role in maintaining and updating the risk management framework by:
I. Implementation of policies, procedures, limits and controls that ensure the identification, evaluation, monitoring, reduction and reporting of the risks related to the activities of the institution at the level of activity lines and at the overall level of the credit institution;
II. Development of anticipatory and retrospective tools to identify and measure risks;
III. Establish and manage regular and transparent reporting mechanisms so that the governing body and all relevant Bank institutions have timely, accurate, concise, understandable and meaningful reports and can exchange relevant information by identifying, measuring or evaluating and risk monitoring.

c) The existence of a policy to approve new products. The Risk Management Division is involved both in approving new products and in approving changes to existing products.
I. Periodic checks carried out at the level of all entities within the Bank;
II. Promoting the responsibility of the bank's employees on risk management and mitigation by managing the self-control activity. This activity requires permanent monitoring and annual reporting of monitoring results on subordinate activity by all directors of the Bank's divisions and branches;
III. Testing front-office employees. Testing aims both at the level of theoretical and practical training and the ability to identify and report incidents or vulnerabilities that may expose the bank to risk;

B.4 Internal Banking Control

Internal control of the Bank consists of the risk management function, the compliance function and the internal audit function. The internal control of the Bank is directly subordinated to the General Manager of the Bank. Control functions are independent of each other from the organizational point of view and the activity lines they monitor.

C. The shareholders structure and social capital

As of 31 December 2019 respectively 31 December 2018 the structure of the capital is the following:

	2019	2019 (%)	2018	2018 (%)	Variatie detinere (%)
Broadhurst Investments Limited	308,462,000	66.7%	308,444,631	66.7%	0.0%
Romarta SA	127,512,000	27.6%	127,479,892	27.6%	0.0%
Andrei Siminel Cristian	26,510,000	5.7%	26,494,040	5.7%	0.0%
Other shareholders (<1%)	132,000	0%	197,437	0%	0.0%
Total	**462,616,000**	**100%**	**462,616,000**	**100%**	**0.0%**

During 2019, social capital was not increased, but it was rounded the number of shares.

D. Attracted funds and borrowed funds from clients- bank loans

Regarding the resources attracted by the bank from individual clients and legal entities, throughout 2018 they were the main source of financing, following the development policy directed towards increasing the resources attracted by the bank.

RON

Resources attracted from clients	31.12.2019	31.12.2018	2019 vs 2018
LIQUIDITIES	**1,942,614,319**	**1,505,013,585**	**129%**
Individuals	1,042,052,011	289,963,227	359%
Legal entities	900,562,308	1,215,034,392	74%
TOTAL DEPOSITS	**3,725,601,406**	**3,254,381,822**	**114%**
Term deposits	3,632,277,342	3,176,144,246	114%
Collateral deposits	93,324,064	78,237,576	119%
TOTAL CLIENT RESOURCES	**5,668,215,725**	**4,759,395,407**	**119%**

The volume of funds attracted from customers increased by 19%, while lending increased by 23%. The utilization rate of net loans / funds increased from 68 % to 71%.

RON

		31-Dec-19		31-Dec-18	
	Type of resource	**Volume**	**%**	**Volume**	**%**
1	**Treasury resources**	**40,846,726**	**1%**	**57,398,480**	**1%**
A	Loans from Financial Institutions	40,846,726	1%	57,398,480	1%
2	**Resources from clients**	**5,668,215,725**	**99%**	**4,759,395,407**	**99%**
A	Current accounts	1,942,614,319	34%	1,505,013,585	30%
B	Client deposits	3,725,601,406	65%	3,254,381,822	69%
	TOTAL ATTRACTED RESOURCES	**5,709,062,451**	**100%**	**4,816,793,887**	**100%**

The Bank's strategy in regards to the banking products offered to its customers is summarized in the following commercial bank activities:

1. Attracting and placing resources (lending);
2. Operating cash-ins and payments both in Front office and On-line;
3. Card operations;
4. Libra Pay service

D1. Attracting and placing resources

Libra Internet Bank S.A. Strategy in liquidity management falls within the bank's general development strategy, whose main strategic objectives are strengthening its position on the SMEs and professionals sector, extending the agriculture segment, project finance for real estate, loan portfolio's quality management and cost control.

The main objective of Libra Internet Bank in liquidity management is the adoption and maintenance of an optimal structure of bank assets and liabilities that allows:

- Maximizing the net revenue from interests, registered by the bank, at an established asset level;
- Interest's correlation with the market evolutions and the adjustment thereof according to the bank's need for liquidities;
- The performance of the bank's activity under optimum conditions, according to the established strategy, with the avoidance, to the greatest possible extent, of dysfunctions that may occur following the undertaking of excessively high risks in the liquidity area;
- Minimizing any negative effects that may occur during crises, in terms of the bank's liquidity.

Specifically, in the bank's development plan for 2019, in the management of assets and liabilities and liquidity management, the following issues were considered:

- The quantity and quality correlation of the financing resources used by the bank (mainly from the resources attracted from natural and legal person - depositors) with the investment volume; to this extent, the following issues shall be considered:

  a) the dispersion of the sources attracted for as many depositors as possible, per foreign currencies (in correlation with the structuring of the investments per currencies) and per adequate time horizons (short, medium, long);
  b) the permanent maintenance of communication with the bank's stable clients, resource suppliers, from the category of large depositors, both at the level of the territorial units, and at a centralized level, so as to anticipate the intentions and availability thereof concerning the investments performed by the bank;
  c) together with the evolution of the attracted resources, the adequate provision of own funds was also considered, so as to maintain the bank's financial stability and credit worthiness; the adequacy requirement of the equity to the risks the bank was exposed to has been met.

- The quality and quantity maintenance of the credits granted to clients at the budgeted levels:

  - monitoring the balance level afferent to granted credits and establishing a maximum ceiling for the balance of foreign currency credits;
  - carefully structuring the credit portfolio in terms of the maturity thereof, as well as of the structure per foreign currencies, in strict correlation with the nature and type of bank resources (equities and borrowed funds). To this extent, the observance of the limits established by the regulations of the National Bank of Romania on the liquidity of banks should be checked;
  - prudence both in terms of analyzing the repayment capacity and in terms of accepting guarantees; emphasis placed on the acceptance of guarantee fund guarantees, micro-credit guarantees through European funds;
  - focus towards premium clients, accessing AgriBusiness clients;

- improving the resource attraction policy in correlation with the crediting policy, by increasing cohesion between the resource attraction policies and the crediting policy, respectively:
  - managing the margins between asset and liability interests;
  - satisfactory administration of liquid assets in correlation with the evolution of the attracted sources (in terms of the typology of clients, currencies and terms);
  - Improving the cross-selling activity.

- Expanding the online sales channel.

- Maintaining the low level of the fixed asset volume and the costs generated thereby by: outsourcing (requesting services provided by specialized companies for a series of activities), reducing the areas from the branch perimeter, renegotiating leases or relocating the units where the bank performs its business.

- Establishing minimum liquidity levels (expressed via liquidity indicators) and monitoring them on adequate time horizons (intraday or very short, medium and long terms).

- Ensuring the segregation of the attributions and of the independence of operational positions and of positions concerning the monitoring of the bank's liquidity status.

- Establishing and maintaining at least a minimum level of eligible financial assets that can be used in liquidity procurement transactions (by transforming them in liquidities or by using them in collateralized transactions) under normal and liquidity crisis conditions; to this extent, eligible financial assets are deemed to be government bonds and deposit certificates issued by the Ministry of Finance or by the National Bank of Romania.

- Exclusively performing activities in convertible currency.

- Establishing and maintaining work lines with other banks that are mostly active on the internal market; establishing correspondence relations with first ranking banks on the international market; interchange activities concerning the money market, foreign exchange, the trading of government bonds and deposit certificates issued by the National Bank of Romania shall be mainly carried out on the Romanian market or on the European market.

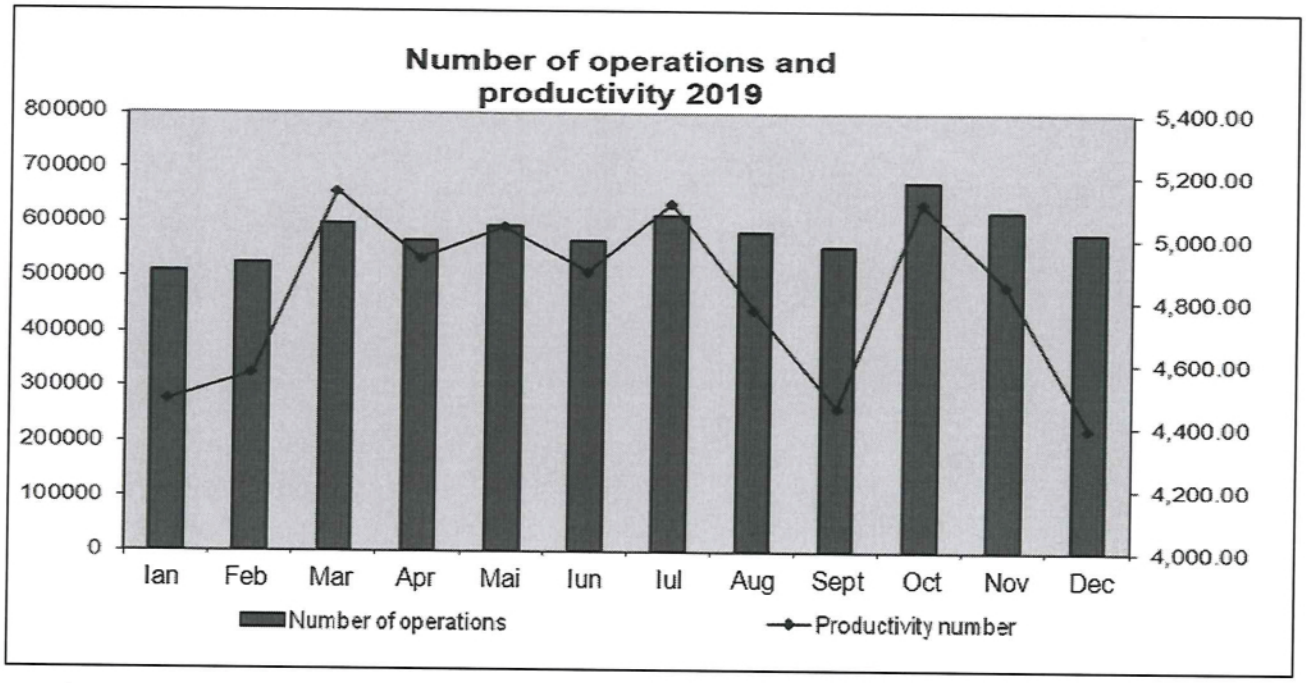
- Assessing the implications that the custody and settlement activities may have over the position of the bank's liquidities and over other potential risks. To this extent, the bank shall request the supply of storage and custody services only from institutions organized for the provision of services to this extent that are adequately regulated and supervised by the financial-banking surveillance authorities in EU and EEA member states.

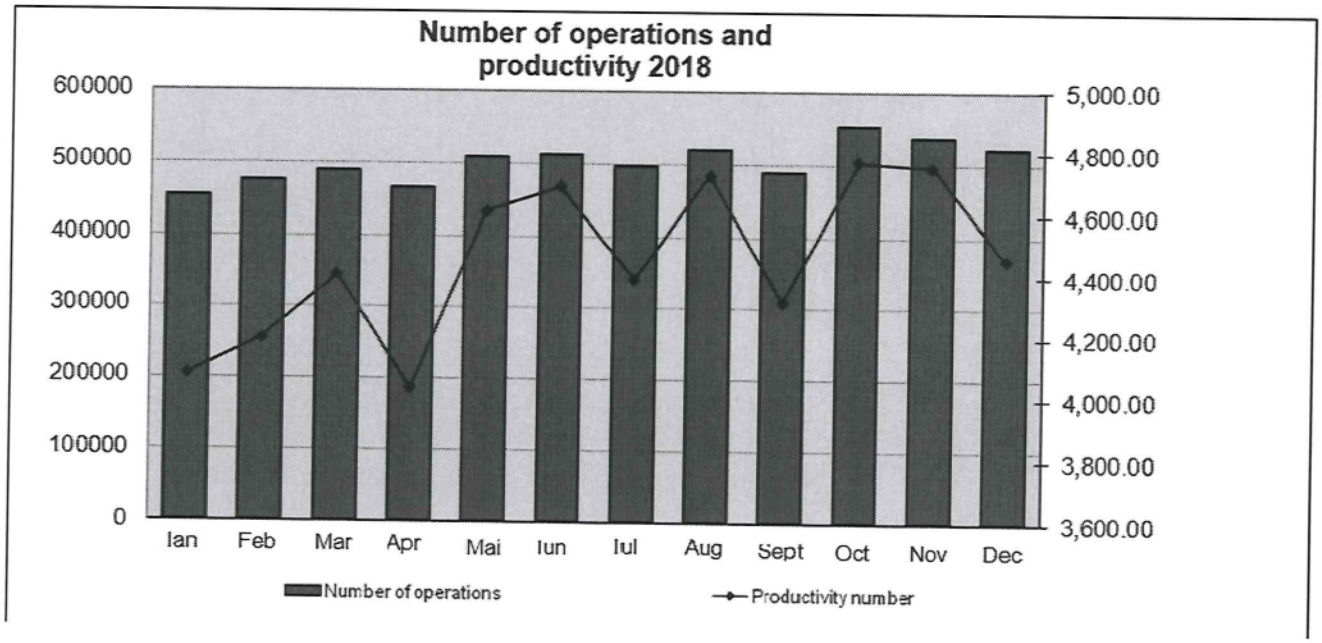
The total net interest income resulting from attracting and placing the resources, registered in 2019, based on the structure of assets and liabilities, was established at 269.97 million RON comparing with 221.95 million RON in 2018.
The effective monitoring of the bank's liquidity was carried out based on the liquidity management strategy, through the permanent surveillance of the liquidity and forecast fluctuations, in correlation with the annually approved institution budget and through indicators, models and scenarios whose sufficiency and complexity are periodically revised. According to the strategy, the bank had to permanently maintain an adequate level of the liquid assets, according to the volume and structure of the attracted resources. The meeting of the limits established by the bank's strategy and risk profile (the immediate liquidity indicators, the gross credit indicators in the total attracted sources and grosscredits in the total gross assets, the liquidity indicator per maturity bands, the internal liquidity indicator, the level of resource concentration per depositors) was set.

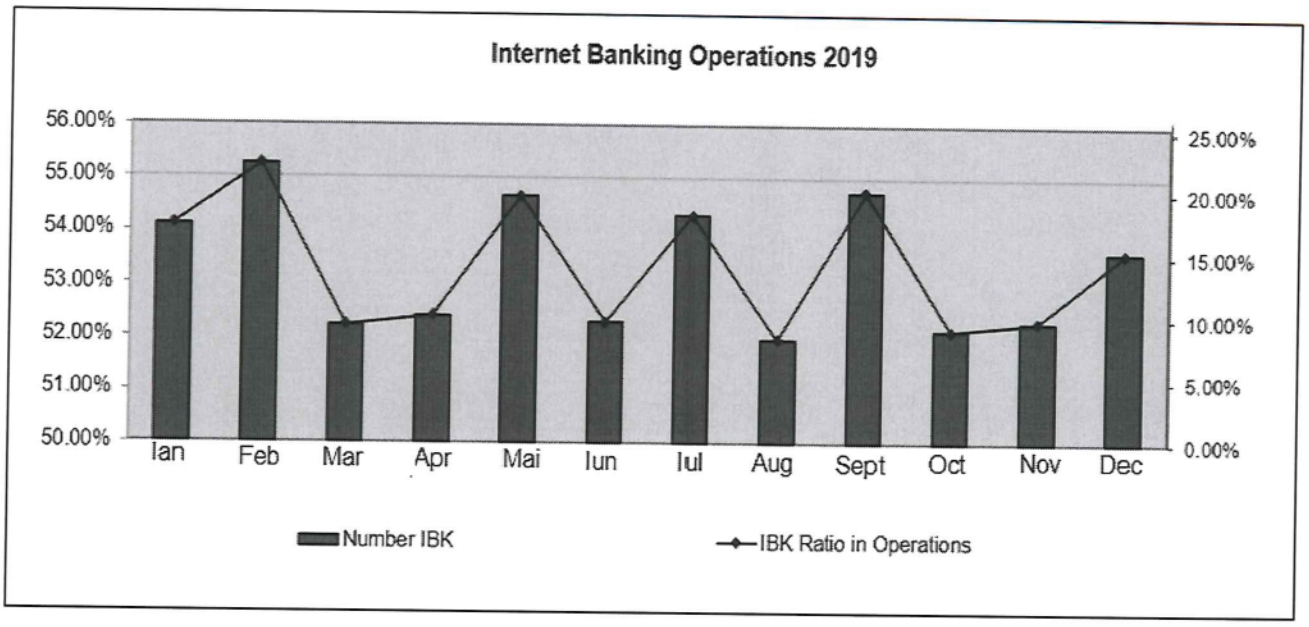
Thus, the immediate liquidity indicator registered at 31 Dec 2019 was 41.32%, comparing with 44.06% at 31 Dec 2018.The gross credits in the total attracted sources from clients registered a 72.12% annual average level, the gross credits in the total net assets registered a 62.24% average, and all the established indicators have met the budgeted limits.

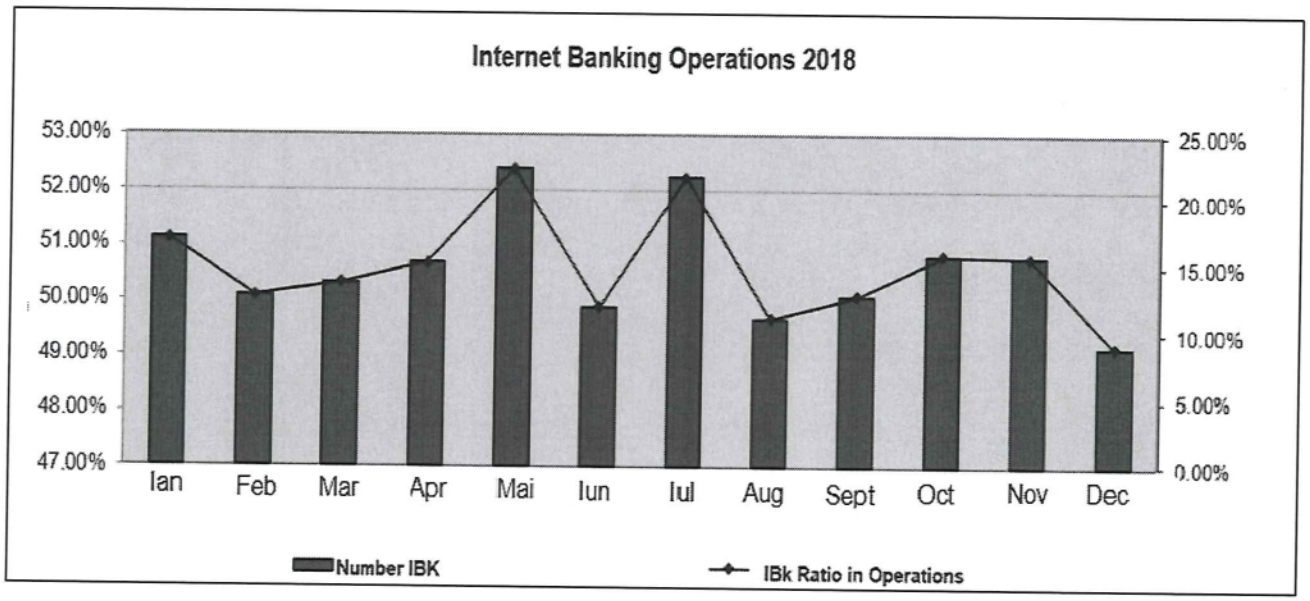
D2. In the area of collection and payment

In 2019, the total number of operations carried out by the bank increased by 16.24% (Front-Office and Pay-Office payments and receipts amounted to 6.991.560 in 2019 compared to 6.014.268 in 2018). The monthly average productivity per employee increased in 2019 by 8.10% from 4453 monthly operations / employee in 2018 to 4814 monthly operations / employee in 2019.









D3. Card activity in 2019

Issuing:

At the end of 2019 there were 45,814 valid cards.

The types of cards available at the end of 2019 were:

For individuals:

Libra Free

Libra Free Online

Libra Junior

Libra Enjoy Debit

For companies:

Libra Business Standard

Libra Business Executor

Libra Business Medical

Libra Business Gold

Libra Enjoy Credit
Libra Enjoy Online
Libra Gold Tradeville

Active card transactions in 2019:

Card transactions	2019		2018		2019 vs 2018	
	Transactions		Transactions		Transactions	
	Number	Value	Number	Value	Number	Value
Total Cash Transactions	**680,794**	**929,030,485**	**600,944**	**818,191,206**	**13.29%**	**13.55%**
Withdrawal On-us Domestic*	415,728	656,920,953	403,886	659,792,933	2.93%	-0.44%
Withdrawal Us-on-others Domestic	555,792	724,026,170	591,140	807,621,931	-5.98%	-10.35%
Withdrawal Us-on-others International	10,411	12,461,317	9,804	10,569,275	6.19%	17.90%
Total Merchant Transactions	**2,498,838**	**529,051,049**	**1,906,698**	**378,780,953**	**31.06%**	**39.67%**
On-Us	15,585	2,945,098	11,741	2,579,352	32.74%	14.18%
Domestic	1,993,497	353,708,797	1,538,704	264,111,458	29.56%	33.92%
International	489,756	172,397,154	356,253	112,090,143	37.47%	53.80%
Total Balance Inquiry Transactions	**116,088**	**0**	**125,491**	**8,441**	**-7.49%**	**-100.00%**
us-On-us Domestic	99,152	0	95,489	0	**3.84%**	**0.00%**
us-On-others Domestic	91,168	0	28,967	8,205	**214.73%**	**-100.00%**
us-On-others International	1,664	0	1,035	236	**60.77%**	**-100.00%**
Total Miscellaneous Transactions	**6,377**	**6,433,394**	**13,551**	**7,077,758**	**-52.94%**	**-9.10%**
Mini Extras	0	0	0	0	**0.00%**	**0.00%**
Change of PIN code	3,896	0	3,008	0	**29.52%**	**0.00%**
Other	**10,273**	**6,433,394**	**10,543**	**7,077,758**	**-2.56%**	**-9.10%**
Grand Total	**3,302,097**	**1,464,514,927**	**2,646,684**	**1,204,058,358**	**24.76%**	**21.63%**

*Euronet ATMs installed at Libra Internet Bank branches

Acceptance

Transactions registered at the acceptance terminals by 31 December 2019:

1. Transactions registered at the acceptance terminals (excluding e-commerce acceptance transactions) by 31 December 2019:

Libra Internet Bank ATM / POS Card Transactions	2019		2018		2019 vs 2018	
	Number	Value	Number	Value	Number	Value
Total Cash ATM Transactions	**654,103**	**645,699,280**	**520,070**	**563,408,000**	**25.77%**	**14.61%**

Withdrawal us-On-us Domestic	270,849	430,881,367	265,160	432,703,970	2.15%	-0.42%
Withdrawal others-On-us	383,254	214,817,913	254,910	130,704,030	50.35%	64.35%
Total Transactions Cash POS*	0	0	0	0	0	0
Withdrawal us-On-us Domestic	0	0	0	0	0	0
Withdrawal others-On-us Domestic	0	0	0	0	0	0
Withdrawal others-On-us International	0	0	0	0	0	0
Total Transactions Merchants POS	**3,377,784**	**550,367,869**	**2,154,488**	**355,391,337**	**56.78%**	**54.86%**
Us-On-us	15,654	2,959,915	10,940	2,006,832	43.09%	47.49%
Domestic	2,913,916	450,050,426	1,997,236	304,806,961	45.90%	47.65%
International	448,214	97,357,528	146,312	48,577,544	206.34%	100.42%
Total Balance Inquiry Transactions Euronet*	**168,687**	**0**	**146,248**	**0**	**15.34%**	**0**
us-On-us Domestic	**70,274**	**0**	**66,144**	**0**	**6.24%**	**0**
others-On-us Domestic	**98,413**	**0**	**80,104**	**0**	**22.86%**	**0**
others-On-us International	**0**	**0**	**0**	**0**	**0**	**0**
Total PIN code transactions (ibk)	**3,869**	**0**	**2,888**	**0**	**33.97%**	**0**
Grand Total	**4,204,443**	**0**	**2,823,694**	**0**	**48.90%**	**0**

*Euronet ATMs installed at Libra Internet Bank branches

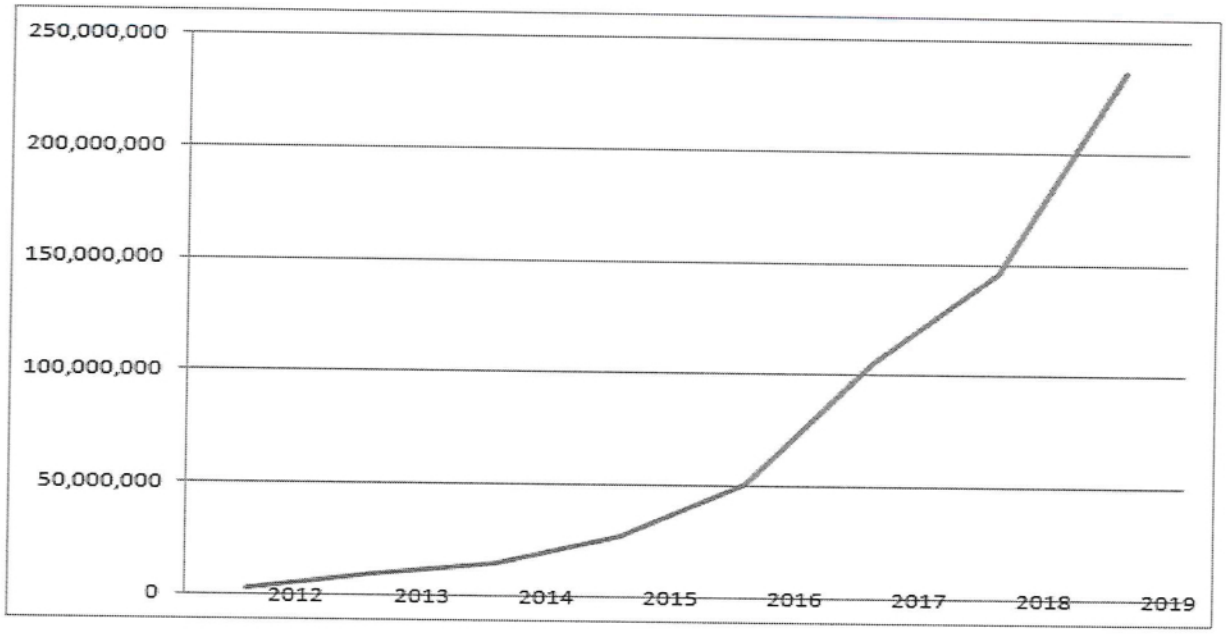
2. Transactions registered at the e-commerce acceptance terminals by 31 December 2019:

Libra Internet Bank e-commerce Card Transactions	2019		2018		2019 vs 2018	
	Number	Value	Number	Value	Number	Value
Total Merchant Librapay Transactions	**1,209,202**	**239,578,381**	**803,708**	**147,587,266**	**50.45%**	**62.33%**
On-Us	7,000	3,206,289	6,287	797,631	11.34%	301.98%
Domestic	1,108,924	213,573,299	731,461	131,561,217	51.60%	62.34%
International	93,278	22,798,793	65,960	15,228,418	41.42%	49.71%

D4. Libra Pay's activity

LIBRA Pay is a modern electronic payment system launched in 2012, with the advantage of a fast settlement between buyer and merchant, on the same day the transaction, being defined by a triple principle for online payments: 3S -Security, Support, and Simplicity.

This product's success has been proven by the evolution of turnover recorded during the period 2012-2019, which is presented in the picture below. In 2012, Libra Internet Bank has been awarded the e-Novation award during the 9th edition of the e-Finance Gala Awards for Libra Pay's "T + 0" facility - the first integrated service for online payment processing launched by Libra Internet Bank and the only one on the Romanian market to offer same-day transaction settlement. In 2014 bill payments were integrated in LibraPay's Wallet App, in 2017 were implemented Person to Person (card to card) money transfers and in 2018 these card to card transaction could also be made via messages transferred to WhatsApp contacts. In 2019 Person to Person (card to card) transfers have also been implemented in an international service, namely the messaging app of Viber – Rakuten, on the Hungarian market.



E. Dealings on the Capital market

- **Settlement activity** – by participation in the multilateral compensation in the Electronic Payment System for the clients of the financial investment service company (FISC)

The activity for the compensation of funds and the settlement of transactions with financial instruments was carried out in 2019 for one FISC clients, SSIF TRADEVILLE S.A
In 2019, the total value of the amounts settled (charges and payments) by Libra Bank S.A. for its clients amounted to lei 194,115,076.14 for transactions performed with the BVB, and the charged fees amounted to lei 4,716.

- **Activity regarding investment securities (government bonds) and portfolio securities** (Libra Internet Bank S.A's. stakes in other private companies)

As at 31.12.2018, the government bond portfolio of Libra Internet Bank S.A. consisted of lei 915.44 million and euro 13.58 million - denominated government bonds with a coupon, lei 858.26 million and euro 10.19 million have a maturity of under 5 years, and lei 57.19 million and euro 3.38 million have a maturity of over 5 year. The revenues attached to these bonds amounted to lei 22,467,270.68.

The share portfolio held by the bank with other trading companies at the end of 2018 included 172 shares of Societatea De Transfer De Fonduri Si Decontari TRANSFOND S.A., 17 shares of the Society for WorldWide Interbank Financial Telecommunication - S.W.I.F.T, 7,498.5 shares of Biroul de Credit S.A., 499,836 shares of Elvila S.A., 999 shares of SOPAS - Servicii Financiare&Leasing SA and 650 common preferred share series C of VISA Inc.

In 2019, the dividend income totaled lei 557,638.

F. Risk Management

In order to maintain a level of risk within acceptable limits, while also obtaining results that compensate the assumed risk in accordance with the Banks's strategy and business model, the risk management function implements and manages a comprehensive and effective risk management framework,

which includes components such as organizational structure, policies, methodologies, processes, controls resulting from the principles and guidelines of the risk strategy, in order to ensure:

- Identifying, evaluating, measuring, controlling and monitoring / reporting risks;
- Establishment and monitoring of risk limits that translate the Bank's risk appetite into an operational level, the periodic reporting of their classification, the identification of limits exceeding and the actions to be undertaken;

The Board of Directors approves and oversees the risk appetite, after defining the objectives, strategies, and key risk indicators, the time horizons relevant for the objectives and the types of risks and intervals that the bank is willing to assume to achieve the objectives. The BOD's vision regarding the risk appetite is applied regularly in all bank entities and is included in organizational culture.

The main significant risks to which the bank is exposed are:

Credit risk is the main risk to which the Bank is exposed as a result of its main mission and the nature of its activities. The Bank is exposed to this risk as a result of transactions with customers and other counterparties.
With respect to customer exposures, all new exposures are approved by a credit committee, subcommittee or BOD, following a thorough analysis of potential borrowers.
The loans portfolio increased by ~ 23% (from 3.304-4.013 mio. RON), while maintaining NPL rate decreased from 2.74% to 2.27%. The provisions coverage ratio for NPL exposure has changed from 49.8%. to 55.58%. The risk profile at the end of 2019 is classified as "Medium-Low".
Operational risk is the risk of loss resulting from the use of inappropriate internal processes, persons or systems or that have not properly performed their function or from external events. Includes legal risk, fraud risk, model risk, IT risk, risk associated with outsourced activities. The risk profile at end of 2019 is classified as "Medium high".
Market risk is the risk of losses on balance sheet and off-balance sheet positions due to unfavorable fluctuations in the market (in relation to the Bank's portfolio, foreign exchange rate and interest rate risk are relevant). Risk profile at the end of 2019 is framed as "Low". The interest rate risk profile of activities outside the trading book is rated "Medium-Low".
Liquidity risk represents the current or future risk of negative impact on profits and capital, determined by the credit institution's inability to meet its obligations at maturity. The main regulated liquidity ratios are above the minimum levels, the liquidity coverage indicator showing the value of 301.4% and the NSFR indicator registering 117.4%. The risk profile at the end of 2019 is classified as "Medium-Low".
Strategic risk (including business risk) is defined as the current or future risk of adverse earnings and capital loss due to changes in business environment or unfavorable business decisions, inappropriate implementation of decisions or lack of reaction to changes in the business environment. The risk profile at the end of 2019 is classified as "Medium-Low".
Compliance risk is the current or future risk of loss of profits and capital, which may result in fines, damages and / or termination of contracts or that may affect the bank's reputation as a result of breaches or non-compliance with the legal and regulatory framework, recommended practices or ethical standards. The risk profile at the end of 2019 is classified as "Medium".
In terms of overall capital adequacy ratio, the value for end of 2019 is 17.01%, above regulatory requirements.

F1. Analysis of credit activity (RON)

The gross loan portfolio at 31.12.2019 amounted to 4,013,390,330 RON, with a 22% increase compared to 31.12.2018 when its value was 3,304,406,229 RON.

	31 December 2019	31 December 2018
Presentation of loan portfolio		
Performing portfolio	3,982,541,613	3,213,928,632
Nonperforming portfolio	92,613,501	90,481,379
Total gross loans	**4,075,155,115**	**3,304,410,011**
Minus: Credit risk provisions	(61,771,303)	(52,890,492)
Total net loans	**4,013,383,812**	**3,251,515,519**

Throughout 2019, the net loan portfolio increased by 23%, while the credit risk provisions increased by 17%.

F2. Analysis of key financial indicators and prudential indicators.

In regard to the assessment of solvency, liquidity and asset structure, we note the following significant issues:

- **The solvency** report calculated as the ratio between own funds and the risk-weighted assets, had registered values that were superior to the minimum level established by the National Bank of Romania. The solvency ratio as of 31.12.2019, calculated based in equity, amounted to 17.01%, while at 31.12.2018 it amounted to 17.27%. The minimum level accepted by the National Bank of Romania for our bank was 15.07% as of 31 Dec 2019.

- **The equity ratio**, calculated as the ratio between equities and the total assets, reflects the extent to which the patrimonial assets are funded from own sources. As of 31 December 2019, the indicator amounted to 11.16%, compared to 11.24% on 31 December 2018.

- **The share of fixed assets in relation to the total assets,** calculated as the ratio between the fixed assets and the total assets, is 0.92%, while in 2018 was 0.15%. The main increase was due to recording the use right of lease contracts as a fixed assets accoding to the new IFRS 16.

- **The basic efficiency rate,** calculated as the ratio between the current revenues (except for revenues from provisions and retrievals of depreciated receivables) and current costs (except for costs for provisions and losses from non-retrievable receivables) amounts to 157% as of 31.12.2019, compared to 161% in 2018.

- **The liquidity ratio (LCR ratio)** calculated as the ratio between the actual liquidity and the necessary liquidity according to the legal norms of the National Bank of Romania in force is 301% on 31.12.2019, compared to 237.2% on 31.12.2018.

At 31 December 2019 Libra internet Balnk had 1.32% market share and ranked on 15 place among the Romanian Banking system.

The main indicators used by National Romanian Bank for ranking the banks and to compare during the system are presented below.

	2019	2018	Romanian Banking System 2019
Total Capital ratio	17%	18.77%	20%
Annual growth rate	25.23%	19.47%	9.91%
ROE	17.23%	17.87	11.19%
ROA	1.93%	1.90%	1.28%
Cost to income ratio	54.26%	53.19%	54.86%
Leverage ratio	9.83%	10.76%	9.16%
NPL ratio	1.70%	1.87%	4.08%

G. Investments

The total investments made by the Bank in 2019 increased slightly by 5.7% from 4,748,969RON in 2018 to 5,018,506 RON in 2019.

H. Analysis of operating costs

The operating costs including depreciation, increased in 2019 by 30% compared to 17% in 2018, while operating expenses excluding depreciation increased by 22% compared to 15% as of 2018. Depreciation in 2019 increased by 389% compared to 2018 due to applying IFRS 16 where the right of use of leasing contracts as recorded into accounting as a fixed asset.

I. Human resources

The Bank had 865 employees at 31 December 2019while the average number of employees was 834 during 2019.

The split of personnel expenses per management and operating personnel is as follows:

	31 December 2019		31 December 2018	
	No. of employees	**Salary costs**	**No. of employees**	**Salary costs**
In RON				
Operating personnel	781	74,919,328	720	63,247,883
Management personnel	84	29,577,298	84	18,596,533
	865	**104,496,626**	**804**	**81,844,416**

J. Asset tax

In 2019, the Bank recognized the Tax on Banking Assets introduced by the Government Ordinance no. 114/2018 in amount of RON 6,743,442.

K. Information on the probable evolution of the bank as per the 2019 Budget

- **Business goals for 2020**

In 2020, Libra Internet Bank intends to have a 23% increase in the volume of business (net assets) while the loan portfolio will increase by 22%, with a focus on the traditional business lines but with a permanent eye on the new technologies. The entirely business increase will be done in a framework of maintaining a 15% capital adequacy ratio, monitoring the efficiency of sales and a performance-based bonus system.

The main strategic directions for 2020 are:

I. Maintaining the focus on traditional Business lines and increasing the performance and efficiency on these business lines;

II. Increasing market share on the new banking products and signing new contracts with different banking Fintech.

The main actions for attending the Business goals are:

1. Increasing productivity on loans (treating the small loans online with automatic analysis and minimal or no human intervention, relieving the bank specialists from the small hills to become extremely productive on the big hills and developing the omnichannel concept).
2. Operating flawlessly

The main actions of the bank to achive the productivity are:

1) Becoming more productive in dealing with the exceptions to the rules.
2) De bureaucratization, in each division;

3) Using different authorized channels (specific applications) for working on high traffic flows (eg credits, legal, administration) we work only on authorized channels (specific applications) and give up working by email and phone which kills productivity. Introducing on a large scale electronic signature to the client (project in advanced phase) is another main action for 2020.
4) Increasing the function of the trainers (all new people entering the organization must be able to call the head-office trainers at any time, in order to solve their problem on the spot)- better measure of the activity of trainers in 2020.
5) Improving the efficiency of the division directors by using their work time more efficient: motivating people, pursuing their activity, permanent support solving complex issues by their own competence and staying less time in projects meetings.

6) Implementing a dashboard for all directors that can immediately and simply see all the clients' requests (and the internal requests) unresolved, respectively unresolved within preset deadlines.

7) All the activity of the project teams (IT) should be highlighted in the dashboards, so that each manager (including CD) can select the projects that interest him and see the term of completion and the stage of the project. Each one will be able to follow one or more projects, respectively the activity of the project teams

Productivity indicators in 2019 are similar to those of 2018.

Volume objectives:

The lending activity will increase by 22% while de sources from the clients by 19%. This increase will continue balanced on all traditional business line.

The resources attracting activity (deposits and current accounts) will overtake the lending activity in order to maintain a quick liquidity ratio of about at around 35%.

Financial objectives

In line with the sales estimates for 2020, the budgetary financial structure for the end of the year is estimated to fall within the following parameters:

Balance	**RON BUDGET 2020**
Loans to customers	**4,950,244,181**
TOTAL ASSETS	**7,616,128,804**
TOTAL LIABILITIES	**6,823,496,064**
TOTAL CAPITAL	**792,632,741**

Profit/Loss account	**RON BUGET 2020**
NET INCOME BEFORE OPERATING COSTS	368,383,020
OPERATING INCOME BEFORE PROVISIONS	174,406,853
PROFIT/LOSS BEFORE ASSET TAX	170,906,853
ASSET TAXES	0
PROFIT BEFORE TAX	170,906,853
TAXES	(24,268,773)
NET PROFIT/(LOSS)	**146,638,080**

The financial estimates were based on the sales volumes and profitability levels projected for the end of 2019. In terms of risk costs the main premise is to maintain a level of 2.4% nonperforming loans level.

The estimated profit for the end of 2020 in the amount of **146,638,080 RON** compared to **115,268,834**

RON in 2019, is increasing by 27%, considering the bank increase and elimination of asset tax (a new legislatio was adopted at the biggining of 2020 in order to eliminate this tax).

Efficiency and caution objectives (indicators)

Libra Internet Bank intends to have a high increase in business volume, on the conditions of:

1. Maintaining a level of high satisfaction among clients
2. Maintaining cautious limits to banking activities

In 2020 Libra Internet Bank will continue to optimize its banking operations mainly through an increased efficiency and innovation by developing alternative distribution channels.

In regards to the general strategy on the internal control system, Libra Internet Bank has resolved to maintain its control objectives of risk indicators at levels of caution to develop the compliance function in line with market requirements and recommendations of the National Bank of Romania and to have zero tolerance for fraudulent activities.

Non-financial Statement

Information on the development, performance and position of the Bank and the impact of its work on environmental, social and personnel issues, respect for human rights and the fight against corruption and bribery.

Short description of the business model

- Continuation of bank growth through lending activity, deposits, current accounts and cards, on traditional areas: Liberal professions, Agriculture, Real estate, areas where Libra Internet Bank has experience and are less affected by the technological factor.
- Positioning the bank at a high level in terms of new technologies to streamline processes to obtain low operating costs and signing good partnerships with Big Data firms and FinTech firms.
- Maintain a strong and sufficient capital adequacy level to sustain the bank's growth;
- Maintaining optimal liquidity to ensure stable growth with minimal bank risk;

Environment protection

LIBRA INTERNET BANK S.A. respects the legal framework applicable to environmental protection and is concerned with reducing the impact of its activity on the environment. Managing this activity and putting into practice the legislation in force is done first of all by providing a "Environmental Responsible" academic staff.

The main action on a continuous basis is waste management. The main waste management actions of 2019 were:

- Cleaning Day - 21.09.2019, 5 colleagues participated in cleaning the Snagov forest from waste left by tourists.
- Reduction of consumption in single-use glasses from the bank - cost-benefit analyzes were made and we continue in 2020. Libra Green 2020;
- Recycling paper - colleagues from the administration have placed containers for selective recycling on each level, according to the legal regulations;

Battery recycling - A new contract with Ecotic bat for battery recycling has been signed. The containers were installed at the entrance.

Activities to promote a healthy life

Beginning with 2011 Libra Internet Bank is running Libra Energize, a project that encourages active life, movement in nature, team spirit and environmental protection.
At the same time, within Libra Energize, competitors can sustain humanitarian / social causes, winners can choose a special cause to which they can direct funds
In July 2019 Libra Energize made a blood donation campaign were 110 employees participated.

Other projects for community

- Open Day - May 24, 2019, 10 high school students from Ialomita visited HO and Stefan Cel Mare branch.
- Magic Camp - 22-25.07.2019, 2 employees participated as volunteers in the camp for children with autism;
- Toy Factory - 30.06.2019 - 10 employees with children went to the Lemniko toy factory, where they built toys with children.
- Mother Pan- 25.09.2019 and 02.10.2019 - 24 employees and 32 children learned how to make bread dough and took it home to bake it.
- Sports activities - 09.11.2019- 10 employees participated in a sporting activity with children in the care of the association. SOS Copy Village. There were also donated sports materials from the money donated by several employees.
- Financial education - 08.11.2019 - 2 employees presented details about bank account, card, loans etc. to persons with disabilities in the care of the Well Romania Association.
- Santa Claus for children from SOS Children's Villages - December 17-18, 2019. 28 children between the ages of 3-5 will receive gifts purchased from donated money from employees.

- The magic of a library - Dec 2019 - book donation for children in partnerships with Bookster.
- A coffee with the bank- In November a meeting was organized with an entrepreneur during which there were discussions about the main banking products in the market and the needs of the company.

Ethics and anticorruption activities

Traditionally, the Libra Internet Bank, in its annual training plan, offers a mix of training courses, both online and face to face. The courses aim at activities with direct applicability in the professional activity, but also courses for development of some skills or hobbies of the employee. A special emphasis, which also involves on-line testing, is on courses such as:

1. Make employees accountable in areas such as customer knowledge and prevention of money laundering and terrorist financing. In this respect, starting with 2016, elearning courses were completed with face-to-face sessions attended by both employees in the network and in the bank's office.
2. Online Courses and Testing on Good Banking and Anti-Corruption Practices.
3. Permitted and ethical conduct, including promoting equal opportunities policy and encouraging reporting to whistleblowing,
4. Consumer protection.
5. Ethical activity is well implemented in the bank existing a code of ethics, a responsible person, a whistleblower, and a reporting process for all incidents of breaking the code of ethics. Knowledge of the code of ethics is mandatory for all employees and is tested periodically using

Social and personal activities Improvement and development

In 2019 the training activity was focused on developing the skills and technical knowledge of employees from all divisions and branches of the Bank;

The main programs and training courses were:

- Leadership and strategic thinking courses for senior bank managers
- technical courses focused on the area of operational excellence and compliance in the KYC and AML area
- personal development courses and workshops within the Libra Cultural program (personal branding, public speaking, mindfulness)
- stress-fighting and team-building workshops within the Libra Energize program
- trainers, in order to develop the skills of internal trainers
- on-line courses / teleconferences, on financial analysis and credit management.

Human rights

Considering the European Social Charter which is a treaty of the Council of Europe that guarantees the social and economic rights people, the bank through all procedures, policies and the collective labor contract the principal respect all the principal rights:

- the equality between women and men;
- the right of persons with disabilities to individual social integration;
- the protection in the event of dismissal;
- the right of workers to dignity;
- the right of workers with family responsibilities to equal opportunities and equal opportunities for treatment;
- prohibition of discrimination.

President of Board of Directors
Radu Gratian Ghetea

Director
EUGEN GOGA